Cattles plc

Annual Report and Financial Statements 2005

Serving our customers in local communities

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Geographical coverage of business centres

Profile of the Group

Consumer Credit
The consumer credit division comprises Welcome Financial Services, Welcome Car Finance, Progressive Insurance, Dial4aloan and Shopacheck Financial Services. The division serves more than 666,000 customers from 278 separately located business centres and 38 Local Collection Units ('LCU') throughout the UK.

The division's direct repayment product range includes unsecured and secured personal loans, hire purchase credit facilities sold to consumer credit customers. Amounts advanced to our customers are typically small unsecured loans (£1,500), hire purchase for cars (£4,800), secured loans (£9,000) and short term home collected advances (£300). Loans are repayable over periods ranging from 23 weeks to 3 years, or longer in the case of secured advances.

Various repayment methods are available to our customers including direct debits through the banking or post office systems and over the counter payments at one of our local business centres. In addition, a home collection service is provided for small value, short-term advances.

Our strategy of maintaining credit quality is underpinned by our policy of responsible lending and treating customers with appropriate sensitivity when they experience financial difficulties. The success of this strategy is demonstrated by the division's achievement of continuing stability in its customers' arrears levels and its loan loss provisioning charge.

All applications for direct repayment credit are initially screened centrally using our bespoke customer relationship management software. Applications which successfully pass this initial screening are then subject to a rigorous pre-lending process, including the verification of information provided by potential customers and an assessment of other commitments which the applicant may have, in order to confirm that the loan is both appropriate and affordable.

A final underwriting decision is taken by a senior underwriter at our central processing units in Nottingham and Hull or, in certain cases, by a local branch manager. The presence of our branches in our customers' local communities enables our staff to maintain a closer contact with them and to respond with understanding to changes in their short-term financial circumstances.

When customers experience a longer term adverse change in their financial position, account management is transferred from the local branch to a specialist LCU branch. The LCU is then able to establish a revised repayment schedule more suited to the customer's current circumstances. The role played by LCUs is fundamental to maintaining our overall credit quality and arrears management.

Welcome Car Finance provides direct distribution motor finance. Progressive Insurance Company manages the group's insurance portfolio consisting principally of payment protection, health, life and mechanical breakdown insurance. Dial4aloan brokers consumer credit applications to both external lenders and other parts of the consumer division.

Debt Collection
The Lewis Group provides a full debt recovery service for external clients and the consumer credit division.

Corporate Services
The corporate services division provides working capital finance to small and medium sized enterprises in the business community.

Cattles Invoice Finance, based in Manchester, Leeds, Oxford, Glasgow, Maidstone and Birmingham provides invoice factoring and sales ledger management services.

Prior to their disposal on 14 January 2005, Cattles Commercial Finance and Cattles Commercial Leasing, based in Hull, provided asset backed leasing, hire purchase and block discounting facilities.

Financial Highlights

	2005	2004	Increase %
Profit before tax	**£115.1m**	£102.3m	12.6
Earnings per share	**24.6p**	21.8p	12.5
Dividend per share	**15.7p**	14.0p	12.1

Barrie Cottingham

Chairman's Statement

It gives me great pleasure to report another year of excellent results for the group with profit before tax increasing by 12.6% to £115.1 million and earnings per share up by 12.5% to 24.6p.

The Board is recommending an increased final dividend of 10.65p per share payable on 16 May 2006, compared to 9.45p paid last year. This, together with the interim dividend of 5.05p per share, gives a total dividend for the year of 15.7p, an increase of 12.1% over the previous year.

As an alternative to receiving the cash dividend, shareholders in the United Kingdom, excluding the Channel Islands, will again be offered the opportunity to have their dividends reinvested in the company's shares through participation in our Dividend Reinvestment Plan.

Regulation

The consumer credit industry continues to be subject to increased levels of regulation and supervision. The sale and distribution of the group's mortgages and insurance products are now regulated by the Financial Services Authority ('FSA'). All relevant customer facing employees of the consumer credit division are required to complete the prescribed training and accreditation to ensure that the group maintains appropriate standards of customer care and compliance.

The Competition Commission's 'Emerging Thinking' paper on its inquiry into the home collected credit market was issued in autumn 2005. In line with the group's strategy, home collected lending continues to be reduced and, at 31 December 2005, represented less than 8% of the total consumer credit division's receivables. We have continued to co-operate fully with the Commission in both public and private hearings and to maintain regular dialogue with the inquiry team. The Commission's current thinking does not appear to significantly impact the group and we look forward to the Commission's 'Provisional Findings' paper which is expected to be published in April 2006.

The OFT is to commence a market study into Payment Protection Insurance ('PPI') in spring this year, which is due to be completed by April 2007. The group offers optional insurance to those eligible customers who value the comfort which this single premium product provides, particularly in times of sickness and unemployment. The sale of PPI products has been regulated by the FSA since 14 January 2005 and currently contributes around 11% of the group's annual revenue.

The Consumer Credit Amendment Bill, which amends the 1974 Consumer Credit Act, has passed through the House of Commons and will be presented to the House of Lords shortly, for final enactment of primary legislation by spring 2006. The changes contained within the Bill, which are designed to create a fairer credit market to protect consumers, are expected to be introduced over a three-year period. As a responsible lender, Cattles fully supports the positive actions being taken to strengthen existing legislation and regulation in the consumer credit market.

We also welcome the recommendations of the Hampton Report and the Better Regulation Task Force Report 'Less is More'. The group is participating in discussions with HM Treasury, the Department of Trade & Industry, the Confederation of British Industry, the Institute of Directors and our trade

associations on the important issue of 'better and single regulation', as referred to in the Hampton Report.

Our People

The dedication, skills and professionalism of our employees are a considerable factor in the success of our business. Regulatory requirements and additional demands from the introduction of International Financial Reporting Standards ('IFRS'), have required extraordinary commitment across all levels of the business. On behalf of the Board, I should like to thank all our employees for their tremendous efforts throughout the year.

Board

I am delighted that Alan McWalter and Margaret Young have joined the Board as independent non-executive directors. Alan's experience in retail marketing and business development, gained particularly from his previous position as marketing director of Marks & Spencer plc, will be of particular value to the group. Margaret is currently senior independent non-executive director and chairman of the audit committee of Uniq plc and her background as a Managing Director of Credit Suisse First Boston and as a director of NatWest Markets Corporate Finance will enhance the range of the Board's existing skills.

As previously reported, I shall be standing down as Chairman and retiring as a director of the company at the conclusion of the Annual General Meeting on 11 May 2006. I have thoroughly enjoyed my 10 years as a director of Cattles and it has been a great privilege to be your Chairman for the past seven years.

Future

I am delighted that our Deputy Chairman, Norman Broadhurst, an independent non-executive director since April 2001, will succeed me as Chairman. Norman's extensive experience will be of considerable value to the continuing development of the group and I wish him every success. The Board looks forward to making further progress in 2006.

Barrie Cottingham
Chairman
16 March 2006

Seán P Mahon

Chief Executive's Review

I am very pleased with the group's performance during 2005, which has again delivered double digit profit growth and at the same time maintaining stable credit quality. It is particularly pleasing that against a continuing background of challenging conditions in the UK consumer credit markets, the group has increased its profits before tax by 12.6% to £115.1 million (2004: £102.3 million).

This strong performance reflects the group's many years experience in the 'non-standard' consumer finance market and our significant investment in bespoke credit profiling software, underwriting technology and collection processes. This has enabled the group to maintain stable credit quality, arrears levels and bad debts during a demanding year.

Consumer Credit

Profits before tax of the consumer credit division, which comprises mainly Welcome Financial Services, have increased significantly during the year by 13.9% to £117.9 million, compared to £103.5 million reported last year.

This profitable expansion of the division's activities has been achieved through a combination of controlled revenue and receivables growth, careful management of credit quality and further improvements in our cost income ratio.

During the last year many lenders have announced a deterioration in their bad debts and arrears levels. It is therefore pleasing to report that the division's continued investment and increased focus on credit quality has ensured that direct repayment arrears levels have remained just below the group's target range of 8% to 10% at 7.6% (2004: 7.2%) of gross receivables. The division's direct repayment loan loss provisioning charge for the year has remained stable at 8.9% of net receivables compared to 9% reported last year.

Total revenue generated by the division's lending activities increased by 4.5% during the year to £620 million (2004: £594 million). Interest income increased by 4.9% to £505 million (2004: £482 million) and insurance, brokerage commissions and other income increased by 2.6% to £115 million (2004: £112 million). Sale of goods reduced by 23.3% to £51 million (2004: £67 million), reflecting a reduction in the sale of motor vehicles by Welcome Car Finance's ('WCF') smaller branch network.

During 2005 we managed a particularly satisfactory improvement in the group's cost to income ratio, reducing from 32.5% last year to 30.1%. Our investment over the past few years in a new generation of business systems and supporting back office processes, together with greater centralisation of customer selection and underwriting activities is beginning to bear fruit. Direct operating costs are being successfully reduced as a result of real and sustainable efficiency savings in key areas, both in the branch network and at our specialist Central Processing Units ('CPUs').

The division has continued to strengthen its overall management of risk and operational control over underwriting and regulated activities, by transferring the selection of new customers away from the branch network to the division's specialist CPUs, located in Nottingham and Hull. The centralisation of these processes has also provided national distributors with the speed and consistency of underwriting and service they require, in an increasingly competitive and regulated environment.

After a loan has been advanced by the CPU, the majority of customers are contacted by an account manager based in their local branch to begin the process of establishing a close working relationship. Maintaining these relationships is a key element of the group's overall arrears management processes and is now the major role of the division's branch network.

There have been no significant changes during the year in the product mix and average advances made to customers by Welcome Financial Services. The business continues to provide relatively small, unsecured personal loans, typically of around £1,500 (2004: £1,400) to around two thirds of its new customers. Hire purchase, where the typical advance of around £4,800 remains unchanged from the previous year, were provided to around 18% of new customers for the purchase of motor vehicles. Secured loan advances, with an average advance of £7,700 (2004: £6,700), and superior secured loans, with an average advance of £12,300 (2004: £12,200), were granted to the remaining new customers.

As previously reported, the group's cautious approach to lending during the year is reflected in a decrease in new direct repayment business written in the period which, at £867 million, is 5.4% lower than 2004. In addition, customer numbers continue to be adversely affected by early settlements as consumers continue to take advantage of the buoyant re-mortgage market and greater choice in the consumer credit sector to consolidate their borrowings with other providers at finer rates.

Against this background, it is pleasing to report that the number of direct repayment customers has increased by 6.2% during the year to 358,000 (2004: 337,000), with 111,000 (2004: 133,000) new customer agreements being written. The number of customers settling their agreements early remained constant at 45,000, which represents an early settlement ratio of around 13% (2004: 14%) of total customers. The division continues to make progress in understanding the evolving needs of those customers most likely to settle early and in refining its product range to meet their requirements.

Direct repayment loans and receivables, after allowance for loan loss provision, increased during the year by £254 million to £1.4 billion at 31 December 2005. Average customer balances increased by 10.8% (2004: 12.3%) during the year to £4,700 (2004: £4,300).

Secured Loans

The Finance & Leasing Association ('FLA') has reported a reduction in UK secured lending volumes during 2005 of 25.6% to £3.0 billion, compared to growth of almost 5.0% in the previous year. This decline in 2nd mortgage secured lending in the UK has been driven primarily by a significant increase in the availability of lower rate 1st mortgage products and larger balance unsecured loans.

Against this backdrop, the consumer credit division has seen a relatively small reduction in its 2nd charge secured volumes, down 4.4% in the year to £390 million (2004: £408 million). In these changing market conditions, the division has continued to develop its distribution network with a number of key secured brokers and introducers, which has resulted in the division's market share for these products increasing to around 13% (2004: 10%).

We are delighted that Alliance & Leicester has established a partnership

Chief Executive's Review continued

with the group's consumer credit business, Welcome Financial Services, to launch their new secured 'Homeowner Loan' product in the first quarter of 2006. Alliance & Leicester will undertake the marketing activity for this product and Welcome Financial Services will manage the application process and subsequent account management. Secured personal loans which meet Alliance & Leicester's criteria, will be written on their balance sheet, with the remaining applications being passed to Welcome Financial Services for underwriting consideration against the consumer credit division's qualifying criteria.

The reorganisation and integration of Dial4aloan into the consumer credit division was successfully completed during the year. Dial4aloan now provides the consumer credit division's existing customer base with third party re-mortgage facilities and is currently introducing new business volumes of around £10 million per month to mortgage lenders, in return for commissions.

Hire Purchase

The consumer credit division generates hire purchase business from its own internal introducer, WCF and from third party dealers. The division has continued to expand its hire purchase business in the UK used car market by increasing loan volumes by 2.8% to £210 million during 2005. This compares with an overall reduction of 2.1% for the industry as a whole, as reported by the FLA.

The primary objective for the formation of WCF was the replacement of lost hire purchase volumes, following the acquisition of two key third party introducers by competitors in 2003. Having achieved this objective, the location and effectiveness of WCF's branch network and the cost of new customer acquisition compared to other introducers was reviewed in July 2005. This review resulted in a reduction of WCF branches from thirteen to nine. WCF remains the consumer credit division's largest introducer of hire purchase customers, with 7,209 (2004: 10,028) vehicles being sold in 2005.

The recent closure of a major distributor in the non-standard used car market should assist WCF in maintaining current levels of new customer introductions to the division. However, we do not expect any significant uplift in volumes, because we believe that much of this business would fall outside Welcome Financial Services' tighter underwriting criteria, introduced in July 2004.

The division has continued to develop its external distribution network in the UK used car hire purchase market, whilst ensuring there is no over dependence on any single introducer. The success of this strategy is reflected in the significant increase achieved in third party hire purchase volumes, which have grown by 11.2% to £152 million during the year.

Unsecured Personal Loans

Demand for the consumer credit division's unsecured personal loan products remains well ahead of the corresponding period last year. However, against a continuing background of difficult trading conditions in the UK unsecured lending markets, the division has continued to maintain its cautious stance on the selection of new customers and its policy of not making larger loan advances which are not secured.

This policy, together with the on-going refinement of the division's bespoke credit profiling systems, utilising latest customer performance data, continues

to strengthen the division's control over the selection and approval of new customers. Tighter lending criteria for the division's unsecured personal loan products has contributed to a 12.2% reduction in unsecured loan volumes during the year to £267 million (2004: £304 million). It has also undoubtedly assisted in delivering on-going stability in the division's customers' arrears and bad debt ratios.

Progressive Insurance

We are delighted that a new agreement was entered into with Norwich Union, which extended our successful relationship for a further five years. This has resulted in all insurance risk being commuted to Norwich Union, including policies written prior to 2005 and additional and on-going benefits for both the group and customers. Consequently, Progressive Insurance, the group's reinsurance company, has ceased to trade.

Home Collected Credit

The division continues to migrate from those customers in the home collected credit market which it believes are uneconomic to serve. Consequently, home collected advances have been reduced during the year by £42 million (2004: £38 million) to £133 million.

The number of home collected customers has also been reduced during the year by 29,000 (2004: 73,000) to 308,000 at 31 December 2005 and the planned consolidation of the home collected branch network from 112 to 52 branches has now been completed. We expect the managed rate of customer reduction to continue in the current year and to contribute to an increasing loan loss provisioning charge as the home collected loan book is run down. The home collected loan loss provisioning charge for 2005, prior to the 'gross-up adjustment', was £29 million (2004: £21 million).

Home collected loans and receivables at 31 December 2005 amounted to £123 million (2004: £148 million) and now represents less than 8% (2004: 12%) of the total consumer credit division's receivables, with an average customer balance of £521 (2004: £531).

Debt Collection

Lewis, the group's debt recovery specialist continued to perform well in a competitive market, delivering pre-tax profits of £2.8 million, up 3.5% on last year. This business provides clients with a full debt recovery service, generating commission income of £6.4 million in the year (2004: £6.5 million). Collections on behalf of external clients to the group accounted for 85% of Lewis' commission based activities.

As previously reported, there has been a noticeable increase during the year in pricing competition for the purchase of debt portfolios. Although there are early signs that prices may be stabilising, Lewis has maintained a prudent approach and focused the majority of its investment in acquiring a further £28 million (2004: £17 million) of portfolios under existing contracts and £4 million (2004: £4 million) in new debt purchases. The company anticipates a similar level of investment in 2006.

Corporate Services

As reported last year, Cattles Commercial Finance was sold on 14 January 2005, for a total cash consideration of £70 million, to Close Brothers Group Limited.

During 2005, Cattles Invoice Finance performed well, with profits of £4.3 million reflecting an increase of 20% over last year. The company focused on growing its client base, reflecting the investment made in new regional offices during the last two years, whilst maintaining strong control

Chief Executive's Review continued

over credit quality. The company's bad debt ratio remained stable at less than 1% of receivables which, at the year end, amounted to £66 million.

Information Technology

Project Phoenix, the development of our next generation of IT and customer relationship management systems, which began in 2003, remains on schedule for implementation by the end of 2006. This major new system will enable the consumer credit division to segment more accurately its customer database and, as a consequence, to refine its marketing activities. This enhanced ability to match the evolving credit status and needs of customers to the group's products should continue to improve the division's processes for recruitment, selection and retention of customers.

Funding Position

At 31 December 2005, the group had available headroom of £274 million within its existing funding facilities, which had an average maturity of over four years. We believe that this level of headroom remains sufficient to support the continuing development and growth of the group's business.

Group borrowings increased during the year by £131 million (net of the £70 million sales proceeds of Cattles Commercial Finance) to £1.4 billion at 31 December 2005. Balance sheet liquidity remained strong and shareholders' funds increased in the year by £25 million to £361 million, with net receivables increasing by £189 million to £1.7 billion at 31 December 2005.

The group's long standing treasury strategy of limiting its exposure to volatility in interest rate movements, through appropriate financial hedging instruments, remains in place. At 31 December 2005, approximately 84% of the group's total borrowings were protected against future interest rate volatility, for an average period of around five and a half years.

In December 2005, we were pleased to announce the agreement of all our lenders to the amendment of the group's borrowing covenants to the new IFRS accounting convention and thank them for the strong support we continue to enjoy in both the bank and bond markets. Under these new arrangements, the group's gearing ratio covenant has been increased from 5 times to 6 times.

Since the year end, we were also delighted to conclude our second US private placement, which raised the equivalent of $119 million at fixed rates for an average term of nine years. In accordance with our treasury policy, all associated currency and interest rate risk was immediately hedged through the derivative markets.

At 31 December 2005, the group's gearing ratio stood at 4.4 times (2004: 4.2) shareholders' funds, excluding goodwill and other intangible assets. The group's credit rating remains unchanged at BBB.

Future

I am delighted with the group's progress this year and its continued success. These excellent results reflect the tremendous efforts and total commitment displayed by our management and staff and I should

very much like to offer my personal thanks to all our employees for their invaluable contribution.

As previously reported, Barrie Cottingham will retire as Chairman and as a director of the company at the conclusion of the Annual General Meeting on 11 May 2006. Barrie has been an outstanding member of the Board for over 10 years. As Chief Executive, I know that I speak for the whole of the group's senior management when I say that Barrie's wise counsel and guidance has been invaluable to the successful development of the group. Barrie leaves with our grateful thanks and our very best wishes for the future.

Demand for the group's products remains strong, with the consumer credit division continuing to receive an increasing number of potential customer loan applications from many of the UK's major credit brokers and hire purchase dealers. The development of new distribution channels and strategic alliances, such as Alliance & Leicester and recently agreed pilots with two other financial institutions, provides further opportunities for successful growth.

The profitable expansion of the group's activities continues to be underpinned by our strategy of responsible lending, controlled growth and careful management of credit quality. Current trading is in line with our expectations and, together with my senior management team, I look forward to another successful year in 2006.

Seán Mahon

Seán Mahon
Chief Executive
16 March 2006

Cattles approach to Corporate Social Responsibility

Cattles is committed to the principles of Corporate Social Responsibility (CSR). Our customers want to be treated well and offered good quality financial products and services that are easy to understand. Our regulators want to be confident that we operate in a way that is fair and honest. Our colleagues want to be motivated, rewarded fairly and treated with respect. And our shareholders want to be assured that we have considered the risks and opportunities that affect our business, including social, ethical and environmental issues.

These issues have the potential to affect our business performance and extend into almost every aspect of what we do. Indeed, recognising and managing CSR issues makes sound business sense.

CSR Management

This year we formed the Cattles CSR Steering Group, led by our Company Secretary and comprising our CSR Manager and senior management representatives. This ensures CSR is considered at the very highest level in the group, strengthening links between the risk management and governance processes and demonstrating our commitment to colleagues and other stakeholders. We have also strengthened a number of our policies relating to CSR.

The Audit Committee, a committee of the Board, has delegated responsibility for monitoring and reviewing the group's management of internal control and business risk, including non-financial risks that are commonly considered part of CSR. They also take account of guidance on CSR related disclosures such as the new EU Accounts Modernisation Directive and Association of British Insurers (ABI) guidelines.

Responsible Lending and Borrowing

We are committed to responsible business practices and particularly to responsible lending and borrowing, and have developed bespoke customer screening and lending criteria accordingly. We actively contribute to the debate on responsible lending through the work of our trade associations (FLA, CCA and CCTA) and by engaging directly with government departments and other relevant bodies on this issue.

However, we recognise that occasionally a number of our customers will experience problems in keeping up regular payments throughout the term of their loan and we aim to respond quickly and sympathetically to any difficulties that arise by referral to the Local Collection Unit. Taking this action enables us to provide personal support and assistance to customers where it is needed and ensure that payment programmes can be revised to meet customers' changed circumstances, where appropriate.

Cattles also believes in raising standards in financial education. We have continued to support two key organisations in this area over the past twelve months; Credit Action and DebtCred. During 2005, we made financial contributions, together with donations of time and resources, in excess of £160,000. This included the production of an innovative CD-Rom, KS4Finance (a young people's guide to personal finance) that is being distributed free to all UK secondary schools in collaboration with Local Education Authorities and Education Business Partnerships.

Our People

The dedication, skills and professionalism of our 4,389 colleagues (of whom half are female) is a considerable factor in the success of our business. The consideration of our employees' welfare, their working conditions, their training and development and ensuring equal access to opportunities is therefore fundamental. We have a number of group policies that help us to do this, including those relating to health and safety, equal opportunities and diversity, flexible working, whistle blowing, as well as grievance and disciplinary issues.

We actively encourage all our colleagues to maximise their talents to drive their own career and the business forward. This year over 3,000 colleagues attended training courses and 529 employees were promoted internally.

We employ a range of methods for communicating with our colleagues, including Q&A sessions with senior executives and our annual employee feedback survey, '*Speak Up*'. Our 2005 survey included 3 questions on CSR and 65% of colleagues thought we cared about the communities in which we work, 66% agreed they were encouraged to support good causes and 88% thought money management education was a good idea.

We also launched '*Innovate*', an employee suggestion scheme which has attracted more than 500 responses on improvements and savings that could be

made within the business. So far these suggestions have led to potential savings of over £400,000.

Working with local communities

Cattles is committed to working with and supporting the communities that it serves by addressing issues of social disadvantage, encouraging the improvement of financial literacy and improving the welfare of young people.

Developing strong relationships with communities around us, locally and nationally, increases awareness of the company, makes customers feel more predisposed towards Cattles and can help to attract a wider pool of high quality recruits. Moreover, our colleagues feel that they are contributing to their communities and can learn new skills when working together.

Our relationship with Business in the Community (BITC) and its '*Cares*' programme has continued to develop, with Seán Mahon, Chief Executive of Cattles, extending his role as Chair of the National Cares' Leadership Team. A further strengthening of our commitment to BITC this year has arisen with the appointment of Seán to the BITC Board of Directors.

In 2005, we formalised the Cattles approach to community investment. This outlines the way we manage our community activities through a practical set of deliverable programmes that enable us to mix business skills, time and resources with the needs of the community.

Cattles contributes to the community with resources both human and financial. In 2005, Cattles donated £550,109 (0.5% of pre-tax profits) to community activities and initiatives. This comprised the value of our financial donations and gifts in kind totalling £396,101 and other costs of community programmes, including volunteering activity and management time, totalling £154,008.

Our '*Hands Up*' volunteering scheme has continued to develop. This scheme provides tools, materials and eight hours of paid time for teams of employees to complete different challenges designed to improve the quality of life for people living in local communities. During 2005, Cattles donated 1,717 hours of time (2004: 491) to community initiatives.

Managing our environmental impacts

During 2005, we have improved our environmental management arrangements, by improving data collection and monitoring, communicating better with our employees and other stakeholders on these issues, and successfully implementing a number of environmental initiatives.

Our environmental programme is focused on four significant environmental impact areas, which form the basis of our environmental policy:

- Energy used in our buildings;
- Use of materials and consumables, such as paper;
- Waste generated through our activities; and
- Fuel used by our transport fleet, particularly company cars.

In each of these areas we set detailed environmental objectives and targets, the majority of which we have met. Our environmental performance has also improved. We have reduced the amount of carbon dioxide emissions, the most significant greenhouse gas contributing to climate change, produced by our car fleet by 4% and the amount of paper we use by 9% by encouraging our colleagues to think about how they travel and use paper. We have also been able to collect information on the waste we produce for the first time this year and are pleased to report that 40% of this is recycled.

During 2005, we also hosted our inaugural environmental awareness day at our Ruddington Fields site in Nottingham, under the theme of 'Small changes – Big difference…Together we can make a difference'. We have also produced a leaflet containing energy efficiency information for the 'home' and 'car' which we distributed to employees and customers who had either taken out a secured loan with us or who had purchased a car from us.

Further detailed information on our approach to CSR and our performance can be found in our 2005 CSR report, available on our website at www.cattles.co.uk, or by contacting Jayne Johnson, CSR Manager, Cattles plc, Kingston House, Centre 27 Business Park, Woodhead Road, Birstall, Batley WF17 9TD.

Seán Mahon

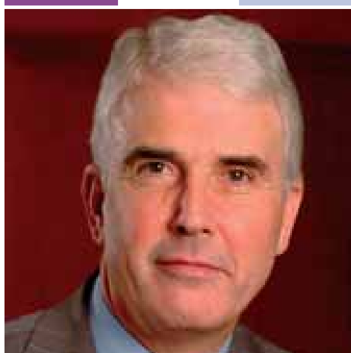
Seán Mahon
Chief Executive
16 March 2006

Directors and Officers of the Company

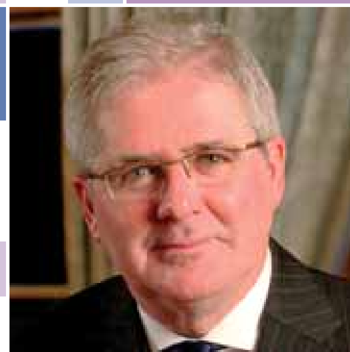
Barrie Cottingham*, FCA, ATII.
Chairman. Age 72. Appointed to the Board 1995. Appointed Chairman May 1999.
Non-executive director of Vp plc. Formerly a senior partner of Coopers & Lybrand.

Seán P Mahon*, FCA.
Chief Executive. Age 59. Joined the company and appointed to the Board 2000. Appointed Chief Executive May 2001. Chairman of National Cares. Previously a member of the UK board and chairman and senior partner of the northern region of PricewaterhouseCoopers.

Mark W G Collins, FCA. Treasury & Risk Director. Age 52. Joined the company in 1996 and appointed to the Board 1998. CBI council member for Yorkshire and Humber. Prior to joining the company was finance director of Brooke Industrial (Holdings) plc.



Ian S Cummine, Chief Operating Officer. Age 52. Joined the company in 1994 when Welcome Financial Services Limited was acquired. Appointed to the Board 1998. Prior to the setting up of Welcome, of which he was a co-founder, held senior positions in the credit industry.



James J Corr, CA.
Finance Director. Age 52. Joined the company and appointed to the Board 2001. Prior to joining the company was finance director of Polypipe plc. Previously held senior finance positions in a variety of listed and private companies.

* *Member of the Nomination Committee*

† *Independent non-executive and member of the Audit, Remuneration and Nomination Committees*

‡ *Independent non-executive and member of the Audit and Remuneration Committees*

§ *Independent non-executive and member of the Audit Committee*

Norman N Broadhurst†, FCA, FCT. Deputy Chairman. Age 64. Appointed to the Board 2001. Chairman of Chloride Group plc and Freightliner Limited and also a non-executive director of Old Mutual plc, Tomkins plc (retiring 22 May 2006) and United Utilities plc. Previously finance director of Railtrack Group plc.

Frank Dee†, Age 55. Appointed to the Board 2004. Non-executive director of Leeds Building Society and Speedy Hire plc and non-executive chairman of The Original Factory Shop Group Limited. Previously held senior executive roles in a variety of companies in the retail sector.

David A Haxby†, LLB, FCA. Age 64. Appointed to the Board 1999. Senior independent non-executive director. Non-executive director of SIG plc. From 1991 until his retirement in 1995 he was the managing partner of the London office of Arthur Andersen.

Margaret A Young§, MBA. Age 51. Appointed to the Board 2006. Non-executive director of Uniq plc. Previously a managing director of Credit Suisse First Boston and a director of NatWest Markets Corporate Finance Limited.

Alan J McWalter‡, Age 52. Appointed to the Board 2005. Non-executive director of Domestic & General Group plc and Alphameric plc and non-executive chairman of Nationwide Autocentres Limited and Constantine Holdings Limited and non-executive director of St Lukes Holdings Limited. Previously marketing director of Marks & Spencer plc.

Roland C W Todd, MA (Oxon), Solicitor. Company Secretary and Legal Counsel. Age 44. Joined the company and appointed Company Secretary and Legal Counsel 2004. Prior to joining the company was a partner in the Leeds office of the law firm DLA.

Report of the Directors

For the year ended 31 December 2005

The directors submit their annual report together with the audited financial statements of the company and the group for the year ended 31 December 2005.

Principal Activities

The principal activities of the group are described in the Profile of the Group on page 2 and are reviewed by the Chief Executive on pages 6 to 11. A list of principal operating subsidiary undertakings is set out on page 109.

Results and Dividends

The performance of the group and the group's future prospects are reviewed in the Chairman's Statement on pages 4 and 5 and the Chief Executive's Review on pages 6 to 11.

Revenue for the year amounted to £705 million (2004: £697 million) and profit before taxation was £115 million (2004: £102 million) as set out in the Income Statement on page 38. An analysis of revenue and profit before taxation, by segmental activity, is set out in note 4 on page 53. Details of the taxation charge for the year are set out in note 11 on page 57.

A final dividend of 10.65p per share is proposed by the directors which, if approved at the annual general meeting, will be paid on 16 May 2006 to shareholders on the register on 31 March 2006. The final dividend, together with the interim dividend of 5.05p paid in October 2005, makes a total for the year of 15.70p per share.

Shareholders can again reinvest their cash dividend in shares through the Dividend Reinvestment Plan ('the plan'). Shareholders who have not previously completed a mandate and who require details of the plan should contact the Registrars at the address shown on page 116. New mandates must be received by close of business on 24 April 2006 to be included in the plan for the final dividend. Further details are set out in Shareholder Information on page 115.

The trustee of the Cattles Employee Benefit Trust has agreed to waive the right to receive dividends over and above 0.01p per share on all shares it holds for the purpose of the Restricted Share Scheme and the Long-Term Incentive Plan. In respect of the total dividend for 2005 of 15.70p per share, the trustee has waived dividends of £200,000 (2004: £180,000) on the shares held during the year ended 31 December 2005.

Directors

The Board comprises the non-executive Chairman, four executive directors and five independent non-executive directors, details of whom, together with brief biographical information, are set out on pages 14 and 15.

The company's Articles of Association require A J McWalter and M A Young, who were appointed as directors of the company on 22 September 2005 and 1 February 2006 respectively by the directors, to be re-appointed at the annual general meeting on 11 May 2006. A J McWalter and M A Young do not have service contracts.

The company's Articles of Association also require that one third, or as nearly as possible but not less than one third, of the directors (excluding, for this purpose, A J McWalter and M A Young) retire by rotation each year. Directors due to retire by rotation include any director who wishes to retire and not offer themself for re-election and otherwise are those who have been longest in office since they were last elected and so that as between persons who were last elected on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. B Cottingham is retiring and not offering himself for re-election and the directors retiring by rotation and, being eligible, offering themselves for re-election at the annual general meeting on 11 May 2006 are N N Broadhurst, non-executive director, who does not have a service contract, and M W G Collins, who holds office as an executive director and has a rolling service contract requiring a period of 12 months notice from the company or six months from the director.

All directors are re-elected at intervals of not more than three years, in accordance with the provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council. Details of the directors' remuneration, share incentives and options, and pension arrangements are set out in the Report of the Board on Directors' Remuneration on pages 26 to 35. Qualifying third party indemnity provisions (as defined in section 309B of the Companies Act 1985) have been made by the company for the benefit of all the directors indemnifying them to the maximum extent permitted by law against liabilities attaching to them as directors of the company and such provisions continue in force at the date of this report. No director has had a contract of significance, other than a service contract and a qualifying third party indemnity provision, with the company or any subsidiary undertaking during the year.

Directors' Shareholdings

The directors named on pages 14 and 15 were in office for the whole of the financial year, except for A J McWalter who was appointed on 22 September 2005 and M A Young who was appointed on 1 February 2006. The interests of the directors in the shares of the company, according to the register kept under section 325 of the Companies Act 1985, were as follows:

Beneficial holdings

	15 March 2006	31 December 2005	31 December 2004
B Cottingham	57,415	57,415	57,415
N N Broadhurst	1,000	1,000	1,000
S P Mahon	136,511	136,511	104,276
M W G Collins	63,984	63,984	54,064
J J Corr	45,384	45,384	25,254
I S Cummine	95,065	95,065	81,392
D A Haxby	8,317	8,317	8,317
F Dee	10,000	10,000	10,000
A J McWalter	–	–	–
M A Young	–	–	–
Total	417,676	417,676	341,718

Non-beneficial holdings

The only non-beneficial holding was by M W G Collins in his capacity as trustee of the Cattles Employee Share Scheme 1994. At 31 December 2005 no shares were held because the trustees had either disposed of (on behalf of employees) or transferred to employees all such shares under the rules of the Scheme during 2005 (2004: 335,219 shares). As at 15 March 2006 no director had a non-beneficial holding.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that year.

In preparing these financial statements, the directors confirm that suitable accounting policies have been consistently applied. The directors also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005, that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These financial statements will be published on the company's website, in addition to the paper version posted to shareholders. The maintenance and integrity of the Cattles plc website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Risk Management

Details of the group's financial risk management policies are set out in note 3 on pages 51 and 52.

Report of the Directors

Share Capital

During the year, the issued ordinary share capital of the company increased by 189,663 to 328,868,981. Details of the changes are shown in note 28 on page 72.

Disclosures concerning the purchase of own shares in relation to the Long-Term Incentive Plan are set out in the Report of the Board on Directors' Remuneration on page 28 and in note 31 on page 78.

As at 31 December 2005 the company was authorised to purchase up to 32,871,858 of its own shares. Full details of the proposed authority of the directors to allot shares, the disapplication of the statutory pre-emption rights and the proposed authority for the company to make market purchases of its own shares are set out in the Explanation of Resolutions to be proposed at the annual general meeting on pages 113 and 114.

Substantial Shareholdings

As at 15 March 2006 the company had been notified of the following interests pursuant to sections 198-208 of the Companies Act 1985 representing 3% or more of the issued share capital of the company:

FMR Corp/Fidelity International Limited	7.03%
Lloyds TSB Group Plc	4.81%
The AEGON UK plc Group of Companies	4.00%
Legal & General Group plc	3.91%

Directors' Borrowing Powers

Resolution 10 to be proposed at the annual general meeting amends the company's Articles of Association so as to increase the limit on the directors' borrowing powers. An explanation of this resolution is set out in the Explanation of Resolutions on pages 113 and 114.

Donations

Charitable donations during the year amounted to £396,101 (2004: £262,727) of which £155,307 (2004: £125,028) were made to organisations addressing the issues of social disadvantage in the communities we serve and £240,794 (2004: £137,699) were made to organisations seeking to improve the financial skills and general welfare of young people. There were no political donations in either year.

Employment Policy

The group gives sympathetic consideration to applications for employment from disabled persons wherever practicable. Successful applicants and employees who become disabled are given appropriate assistance and training and have the same career and promotion prospects as other employees.

Details of employee involvement in the company's business and performance are set out in the report entitled 'Cattles approach to Corporate Social Responsibility' on pages 12 and 13.

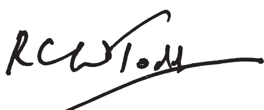
Supplier Payment Policy and Practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers when a binding purchase contract is entered into, provided that all trading terms and conditions have been complied with. At the year end, the company had an average of 22 days (2004: 14 days) and the group an average of 28 days (2004: 20 days) purchases outstanding in trade payables.

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and resolutions proposing their re-appointment as auditors and authorising the directors to determine the auditors' remuneration will be proposed at the annual general meeting.

By order of the Board



Roland Todd
Company Secretary
16 March 2006

Report of the Board on Corporate Governance

For the year ended 31 December 2005

The Board of Cattles plc aims to maintain the highest standards of corporate governance in the belief that such standards are essential to the process of delivering long-term growth in profits and dividends. Throughout the year ended 31 December 2005, the company complied with the provisions of the 2003 FRC Combined Code on Corporate Governance, except for Code provision A.3.2 in relation to the number of independent non-executive directors where the Board did not become fully compliant until 22 September 2005. An explanation for this departure is given under the section of this Report headed 'Directors and Directors' Independence'.

Board of Directors

The company is managed through the Board of directors. The Board's main roles are to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed, to set the company's strategic aims and to ensure that the necessary financial and human resources are in place for the company to meet its objectives and so increase shareholder value.

Normally, there are seven regular Board meetings a year, together with a further meeting which is dedicated to considering the group's budget for the following year and a day devoted to reviewing the group's business strategy, with additional meetings being held as required. All directors attended each of the seven regular meetings held during 2005 (except for A J McWalter who attended the two regular meetings following his appointment on 22 September 2005 and M W G Collins who did not attend the December 2005 meeting because he was in the United States of America on the company's business). There are a number of matters specifically reserved for Board approval, which include approval of the group's overall business strategy, planning and annual budgets, assessment of internal controls and risk management, senior management appointments, approval of major contracts and significant acquisitions, investment and capital expenditure decisions and corporate governance practices, as well as the group's financing and dividend policies.

At each regularly scheduled Board meeting, there is a full financial and business review and discussion, which includes the comparison of trading performance to date against the annual budget and any other financial plan which has been previously approved by the Board for that year. Each Board member receives a comprehensive Board pack prior to each meeting, which incorporates a formal agenda, separate reports from the Chief Executive and each of the executive directors on their specific areas of responsibility, together with supporting papers for items to be discussed at the meeting. Board papers are usually sent out one week before the meeting to give the directors sufficient time to prepare for a comprehensive review of the relevant issues at the meeting.

The Board has delegated the following responsibilities to the executive directors: the development and recommendation of strategic plans for consideration by the Board that reflect the longer-term objectives and priorities established by the Board; implementation of the strategies and policies of the group as determined by the Board; monitoring of the operating and financial results against plans and budgets; monitoring the quality of the investment process against objectives; prioritising the allocation of capital, technical and human resources; and developing and implementing risk management systems.

The Roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, B Cottingham, and the Chief Executive, S P Mahon, is clearly defined in writing and has been approved by the Board.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day to day business of the group.

The Chief Executive has direct charge of the group on a day to day basis and is accountable to the Board for the financial and operational performance of the group.

Senior Independent Director

The Board has appointed D A Haxby as Senior Independent Director. D A Haxby is available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for investor communication.

Directors and Directors' Independence

The Board currently comprises the Chairman, four executive directors and five independent non-executive directors. The names of the directors together with their biographical details are set out on pages 14 and 15. All the directors served throughout the period under review, except for A J McWalter who was appointed on 22 September 2005 and M A Young who was appointed on 1 February 2006. The Board includes independent non-executive directors who constructively challenge and help develop proposals on strategy, and bring strong, independent judgement, knowledge, and experience to the Board's deliberations. The independent directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

Report of the Board on Corporate Governance

Combined Code provision A.3.2 states that at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent and applied to the company for the first time in respect of the year which commenced on 1 January 2004. Compliance with this provision then required the appointment of two additional independent non-executive directors and F Dee was appointed on 30 June 2004. The Board continued to search for an additional independent non-executive director and stated in the 2004 Report of the Board on Corporate Governance that it expected to make a further appointment in 2005. Upon the appointment of A J McWalter as an additional independent non-executive director on 22 September 2005, the Board became fully compliant with Combined Code provision A.3.2.

Independent professional advice is provided at the company's expense, when the directors deem it necessary in order for them to carry out their responsibilities.

Details of the Chairman's professional commitments are included in the Chairman's biography. The Chairman holds one other non-executive directorship but the Board is satisfied that this does not interfere with the performance of his duties to the company which are based around a commitment of approximately 80 days per annum. The Chairman ceased to be a non-executive director of Dew Pitchmastic PLC during the year ended 31 December 2005.

The Board considers all its other non-executive directors to be independent in character and judgement. No independent non-executive director:

- has been an employee of the group within the last five years;
- has, or has had within the last three years, a material business relationship with the group;
- receives remuneration other than a director's fee;
- has close family ties with any of the group's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the Board for more than nine years.

Professional Development

On appointment, the directors take part in an induction programme when they receive information about the group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board committees, together with the powers delegated to those committees, the group's corporate governance practices and procedures, and the latest financial information about the group. This is supplemented by visits to key locations and meetings with key senior executives. Throughout their period in office the directors are continually updated on the group's business, the competitive, legal and regulatory environment in which it operates and other changes affecting the group and the financial services industry by written briefings and Board presentations by senior executives. Directors are also updated on changes to their legal and other duties and obligations as directors of a listed company.

Performance Evaluation

The Board has established a formal process led by the Chairman for the annual evaluation of the performance of the Board, its principal committees and the individual directors, with particular attention being paid to those who are due for re-appointment. The directors are made aware, on appointment, that their performance will be subject to an evaluation.

In 2004 the Chairman commissioned a questionnaire from an independent adviser to provide a framework for the evaluation process and provide the Chairman with a means of making year to year comparisons. The questionnaire included specific references to the objectives of the Board and its Committees. Each director was asked by the independent adviser to complete the questionnaire. The adviser then collated the results from the completed questionnaires and presented the consolidated results to the Chairman. The evaluation results were discussed at Board level and appropriate actions agreed.

During 2005 the Chairman circulated the 2004 evaluation results to the directors and asked them to inform him of any changes or new recommendations or comments they would like to make. The Chairman subsequently reported back to the directors on the steps taken during 2005 to implement the actions set in 2004 and the new recommendations made in 2005.

The Chairman conducts the annual appraisals of the four executive directors in relation to their duties as directors of the company and the five non-executive directors. These appraisals are conducted in separate meetings between the Chairman and each director, at which the director's contribution to Board proceedings is reviewed and the director's views on his own performance and the operation of the Board are discussed. The Chairman reports to the Board on any issues requiring Board consideration.

Led by the Senior Independent Director, the non-executive directors meet annually, without the presence of the Chairman, to conduct a performance evaluation of the Chairman. The Senior Independent Director subsequently has a meeting with the Chairman on a similar basis as the Chairman's meeting with each director.

Individual written personal objectives in relation to their management roles are prepared at the beginning of the financial year by each executive director. After agreement with the Chief Executive, and in the case of the Chief Executive with the Chairman, these objectives are submitted to the Remuneration Committee for consideration and approval on behalf of the Board. The Chief Executive conducts an annual appraisal of the performance of the other executive directors which includes an assessment of their individual performance against their personal objectives set at the beginning of the accounting period and a formal interview. The same process is conducted by the Chairman in respect of the Chief Executive. The extent to which executive directors' personal objectives have been achieved is determined during this review process, the results of which are submitted to, and taken into account by, the Remuneration Committee in finalising the executive directors' bonuses for the year.

Re-election

Subject to the company's Articles of Association, the Companies Acts and satisfactory performance evaluation, non-executive directors are appointed for an initial period of three years, but may be invited to serve one or two additional three year terms if the Nomination Committee believes this to be appropriate. The re-appointment of directors who have served for more than nine years is subject to annual review and re-election by the shareholders.

The Company Secretary

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. The directors have access to the advice and services of the Company Secretary. The company's Articles of Association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Standing Committees of the Board

The Board has established three standing Committees, each with formal terms of reference, being the Audit Committee, the Remuneration Committee and the Nomination Committee. The terms of reference are published on the company's website and are available on application to the Company Secretary at the company's registered office. The Company Secretary acts as secretary to all three standing committees.

Audit Committee

Details of the Audit Committee and its activities during 2005 are set out in the Report of the Audit Committee on pages 24 and 25.

Remuneration Committee

Details of the Remuneration Committee and its activities during 2005 and the group's remuneration policy are set out in the Report of the Board on Directors' Remuneration set out on pages 26 to 35.

Nomination Committee

The Nomination Committee comprises the Chairman, three of the independent non-executive directors (N N Broadhurst, D A Haxby and F Dee) and the Chief Executive under the chairmanship of the Chairman of the Board, B Cottingham. The Nomination Committee's terms of reference include preparing a description of the role and capabilities required for a new Board appointment in light of the balance of skills, knowledge and experience on the Board and the company's requirements, identifying and nominating candidates for appointment to the Board for the approval of the Board and reviewing the succession plans for the group's Board and senior management.

The Nomination Committee has access to recruitment consultants to ensure it receives objective and independent advice. During 2005 the Nomination Committee met twice and, with the assistance of recruitment consultants, recommended to the Board the appointment of A J McWalter as an additional independent non-executive director and started the search which led to the appointment of M A Young as an additional independent non-executive director on 1 February 2006. All members of the Nomination Committee attended both of the meetings held in 2005 while they were members of the Committee.

Relations with Shareholders

The Board maintains a close relationship with the company's major shareholders. The Chief Executive, Finance Director and Treasury & Risk Director maintain regular contact with major institutional shareholders, who are offered a personal meeting with the Chief Executive and other executive directors at least twice each year. The Chairman attends the presentations to analysts of the company's Interim and Final Results and all major shareholders are offered a personal meeting with the Chairman and Senior Independent Director, if they so require. Major shareholders are also given the opportunity to meet new non-executive directors on their appointment. Major shareholders are also offered the opportunity to provide non-attributed feedback to the Board through discussions with the company's stockbrokers, HSBC Bank plc and Citigroup Global Markets Limited.

As required by the Combined Code, the Chairman relays to the Board any issues raised with him by shareholders. This is supplemented by a report by the Chief Executive of shareholders' views following the presentations of the Interim and Final Results. The directors also receive reports from the company's advisers on the market's views of the company both before and after the announcement of the Interim and Final Results and copies of analysts' reports. In October 2005, the Board appointed Makinson Cowell to carry out an audit of the views of the company's major institutional shareholders in order to ascertain their understanding of and attitudes to the company and its standing in the equity market. Makinson Cowell presented their findings to the directors in February 2006.

The annual general meeting is seen as an opportunity to communicate with other shareholders and all directors are expected to attend. The Chief Executive gives a presentation to shareholders at the annual general meeting on the group's results for the year. All shareholders have the opportunity to put questions at the annual general meeting. Information relating to this year's annual general meeting can be found on pages 110 to 114 and shareholders are invited to submit in advance any questions which they would like to ask at the annual general meeting by completing and returning the form which is enclosed with this annual report.

In addition to regular financial reporting, significant matters relating to the trading or development of the group are disseminated to the market by way of Stock Exchange announcements. The company's website, www.cattles.co.uk, includes a section focusing specifically on investor relations. All such announcements are accessible on the website once made. In addition, the materials used in the presentations to analysts of the company's Interim and Final Results and the webcasts of these presentations are accessible on the website after the presentations have been made.

Accountability and Audit

Financial Reporting

The directors believe that the annual report presents a balanced and understandable assessment of the group's financial position and future prospects. The Chairman's Statement and Chief Executive's Review, which can be found on pages 4 to 11, together provide a detailed assessment of the group's affairs. The directors' responsibilities for the financial statements are described within the Report of the Directors on page 17. The company's financial statements are reviewed by the Audit Committee prior to being submitted to the Board for approval.

Internal Control and Risk Management

The Board of directors has overall responsibility for the group's internal control system, which embraces all risks faced by the group, including business, operational and compliance risks. The directors recognise, however, that there are inherent limitations in any system of internal control and as such the controls can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The group has continued to comply with the guidance provided by the Turnbull Committee in a document entitled 'Internal Control: Guidance for Directors on the Combined Code' ('Turnbull guidance'), through an on-going process to identify and evaluate key areas of risk, both financial and non-financial, the group's perceived tolerance or commercial appetite towards such risks and the policies and procedures which should be adopted in order to manage the likely exposure. This process, which has been in place throughout the year and up to the date of approval of this annual report, is regularly reviewed by the Board and accords with the Turnbull guidance.

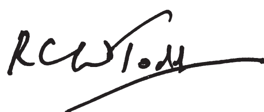
The Audit Committee is responsible for reviewing the operation and effectiveness of the internal control system on at least a six monthly basis and reporting to the Board thereon. Such reviews have been conducted during the financial year. The principal features of the group's internal control system can be summarised as follows:

- A clearly defined organisational structure with lines of responsibility and delegation of authority to divisional executive management supported by established policies and procedures.
- Primary responsibility of the Board to ensure that the major business risks facing the group are identified and that appropriate policies are developed for the management of those risks. The Board, however, recognises that the internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives. Risks are identified and evaluated by reference to impact and likelihood through a series of structured, high level interviews and facilitated risk management workshops.
- The engagement of a leading firm of professional advisers for the provision of a complete range of internal audit services, with a direct reporting link to the Audit Committee and the Risk Management Group.
- A Risk Management Group, comprising the executive directors and other key members of senior management, reviews key group risks together with the effectiveness of the group's controls to manage and reduce the impact of these risks. The Risk Management Group meets twice yearly, with representatives of the group's internal auditors being in attendance and reports to the Audit Committee.
- Delegation of the responsibility for on-going maintenance of the system of internal control procedures to the executive management, specifically designated Risk Champions for all business areas and appropriate working parties. The system ensures that successive assurances are provided to ascending levels of management and changes in the risk profiles for all business areas are monitored and reported on a monthly basis. The group is continuing to develop its risk management framework further to ensure that risk monitoring and reporting is embedded at all levels of management and throughout all areas of the group's operations.
- Arrangements by which staff of the company may raise concerns in confidence about possible improprieties in matters of financial reporting or other matters, together with arrangements for the proportionate and independent investigation of such matters and for appropriate follow-up action and reporting to the Board.
- Operation of a comprehensive planning and financial reporting system, which covers income, expenditure, cash flows and balance sheets. Annual budgets and medium term plans are approved by the Board and monitored against actual performance on a monthly basis to identify any significant deviation from approved plans. The annual budget is reviewed and reforecast on a regular basis.
- Adoption of a schedule of matters specifically reserved for the approval of the Board ensuring that it maintains full and effective control over appropriate financial, strategic, organisational and compliance issues. As described on page 19, the Board has identified a number of key areas, which are subject to regular reporting to the Board.
- The Board also reviews the role of insurance in managing risks across the group.

Going Concern

Under company law, the directors are required to consider whether it is appropriate to prepare financial statements on the basis that the company and the group are going concerns. As part of its normal business practices, the group prepares annual budgets and longer term financial and business plans. In reviewing this information, the directors are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the group's financial statements.

By order of the Board



Roland Todd
Company Secretary
16 March 2006

Report of the Audit Committee

Introduction

This report to shareholders has been prepared in accordance with the requirements of paragraph C.3.3 of the Combined Code on Corporate Governance and paragraphs 5.1 and 5.2 of the Guidance on Audit Committees produced by Sir Robert Smith. This report gives details of the work of the Committee in discharging its responsibilities.

Terms of Reference

The Committee's terms of reference, which can be found on the company's website and are available on application to the Company Secretary at the registered office, are reviewed annually by the Committee and any changes are approved by the Board.

The main duties of the Committee set out in the terms of reference are:

- monitoring the integrity of the company's financial statements;
- keeping under review the effectiveness of the company's internal controls and risk management systems;
- reviewing the company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters;
- monitoring and reviewing the effectiveness of the company's internal audit function in the context of the company's overall risk management system;
- considering and making recommendations to the Board in relation to the appointment, re-appointment and removal of the company's external auditors; and
- overseeing the relationship with the external auditors, including (but not limited to) approving their remuneration, assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services.

Membership

Since A J McWalter's appointment on 10 November 2005 and M A Young's appointment on 1 February 2006 the Audit Committee has comprised the five independent non-executive directors. N N Broadhurst was the chairman and D A Haxby and F Dee were members of the Committee throughout 2005.

The chairman of the Committee, N N Broadhurst, is a Chartered Accountant (FCA) and a Fellow of the Institute of Corporate Treasurers and has significant, relevant and up to date financial and accounting knowledge and experience. N N Broadhurst was previously group finance director of Railtrack PLC (1994 to 2000) and joint deputy chief executive and finance director of VSEL Consortium PLC (1990 to 1994). The other members of the Committee have a wide range of business experience which is evidenced in their biographical details on page 15.

Meetings

The Committee normally meets three times a year and did so in 2005. All members of the Audit Committee attended each of the three meetings held in 2005 while they were members of the Committee. Both the external auditors and internal auditors and the Finance Director attend all meetings of the Committee. The Chairman of the Board and the other executive directors usually attend meetings of the Committee at the invitation of the Committee chairman. The external auditors have a confidential discussion with members of the Committee without the Chairman of the Board and the executive directors being present during part of each meeting.

Work of the Committee

The Committee discharges its obligations as follows:

- At its meetings in March and September, the Committee reviews the company's preliminary announcement and annual report and accounts and interim announcement respectively. At each of these meetings the Committee receives a report from the external auditors setting out any accounting or judgemental issues which require its attention.
- A report from the internal auditors is reviewed at the meetings in March, September and December. The Committee considers the internal auditors' work plan for the following year at its December meeting.
- The Committee considers the external auditors' audit plan at its September meeting and their pre-year end issues report at its December meeting.

- At its September and December meetings the Committee reviews the reports of the Risk Management Group, which comprises the executive directors and other key members of senior management, and considers the key risks facing the group and the effectiveness of the group's controls to manage and reduce the impact of those risks.
- At its March meeting the Committee considers the annual risk and compliance report produced by the Treasury & Risk Director in relation to the preceding year.
- The Committee reviews the fees paid to the external auditors for audit and non-audit services at all its meetings and at its March meeting it assesses the external auditors' independence and makes a recommendation to the Board as to the appointment or re-appointment of the auditors at the annual general meeting.

Independence of Auditors

Both the Audit Committee and the external auditors, PricewaterhouseCoopers LLP, have put in place safeguards to avoid the auditors' objectivity and independence being compromised. The group's policy with regard to services provided by its external auditors is as follows:

Statutory audit services: The external auditors, who are appointed annually by the shareholders, undertake this work. The external auditors also provide regulatory services and formalities relating to shareholder and other circulars. The Audit Committee reviews the auditors' performance on an on-going basis.

Further assurance services: Further assurance services include work relating to the group's adoption of International Financial Reporting Standards ('IFRS'), due diligence and other non-regulatory reporting. The group's normal policy is to appoint the external auditors to undertake this work because of their knowledge and experience of the business. However, the Board reviews their independence and expertise on every assignment. In particular, the group appointed the external auditors to advise on the adoption of IFRS because they would be auditing the 2005 accounts which were the first financial statements to be drawn up under IFRS. However, the group also appointed other accounting advisers to advise on specific aspects of the adoption of IFRS.

Tax compliance and tax advisory: Tax compliance involves dealing with the group's corporation tax returns and this work is carried out by PricewaterhouseCoopers LLP. Tax advisory services include tax planning and structuring advice for direct and indirect taxes. The group's policy is for each individual assignment to be assessed separately and awarded depending on which professional services firm is considered best suited to perform the relevant work.

Other non-audit services: The external auditors are not permitted to provide internal audit, risk management, litigation support, remuneration advice and information technology services. The provision of other non-audit services is awarded on a case-by-case basis, depending on which professional services firm is considered best suited to perform the work.

These safeguards, which are monitored by the Audit Committee, are regularly reviewed and updated to ensure they remain appropriate. The appointment of the external auditors to provide non-audit services requires Board approval for any assignments with fees above a set financial limit.

The external auditors report to the Audit Committee each year on the actions they have taken to comply with professional and regulatory requirements and best practice designed to ensure their independence, including the rotation of key members of the external audit team. PricewaterhouseCoopers LLP have formally confirmed their independence to the Board, in respect of the period covered by these financial statements.

The disclosure of the non-audit fees paid to the external auditors during the year is included in note 10 to the financial statements, on page 56.

Norman Broadhurst
Chairman of the Audit Committee
16 March 2006

Report of the Board on Directors' Remuneration

For the year ended 31 December 2005

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ('the Regulations') and also meets the relevant requirements of the Listing Rules of the Financial Services Authority.

The report describes how the Board has applied the Principles of Good Governance relating to directors' remuneration and, in accordance with the Regulations, a resolution to approve this report will be proposed at the annual general meeting of the company in May 2006.

The Regulations require the auditors to report to the company's members on the 'auditable part' of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited Information

Remuneration Committee

The Remuneration Committee has comprised three independent non-executive directors, D A Haxby as chairman, N N Broadhurst and F Dee as the Committee's other members throughout 2005. A J McWalter was appointed as a member of the Committee on 10 November 2005. All members of the Remuneration Committee attended each of the six meetings held in 2005 while they were members of the Committee, except for N N Broadhurst who was absent from one unscheduled meeting of the Committee which was held at short notice. None of the Committee members has any personal financial interest in the company other than as a shareholder, nor have they any day to day involvement in the running of the business or conflicts of interests arising from cross-directorships.

One of the main duties of the Committee is to determine the remuneration of the executive directors, the Chairman and the Company Secretary and to monitor the level and structure of remuneration for specified senior managers below Board level. The Committee's terms of reference, which can be found on the company's website and are available on application to the Company Secretary at the registered office, are reviewed annually by the Committee and any changes are approved by the Board.

The Committee has appointed New Bridge Street Consultants LLP ('NBSC') as its remuneration consultants. NBSC has no other connection with the company. NBSC advises the Committee directly on matters within the Committee's terms of reference on which the Committee chooses to consult NBSC. NBSC may also advise the company generally on aspects of executive and employee remuneration, typically on the implementation and on-going operation of executive remuneration schemes. NBSC advises a sub-committee of the Board from time to time on the remuneration of the non-executive directors, other than the Chairman.

The Chairman, the Chief Executive and the Treasury & Risk Director are consulted by the Committee but do not participate in any discussions relating to their own remuneration.

Remuneration Policy

Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre necessary to maintain the group's strong growth and profit performance and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration packages are undertaken by the Committee.

There are four main elements of the remuneration packages of executive directors:

- Basic salary and benefits;
- Annual bonus;
- Long-term incentives; and
- Pension and life assurance arrangements.

The company's policy is that a substantial proportion of the remuneration of the executive directors should be performance-related. As described below, each of the executive directors may participate in both an annual bonus scheme and long-term incentive arrangements.

When determining remuneration levels for the executive directors, consideration is given to pay levels elsewhere in the group.

Fees paid to the Chairman of the Board are determined by the Remuneration Committee in consultation with the Chief Executive. Fees paid to non-executive directors, other than the Chairman, are determined by a sub-committee of the Board comprising the Chairman of the Board, the Chief Executive and the Finance Director.

Basic Salary and Benefits

The basic salaries of the executive directors are determined by the Remuneration Committee, prior to the beginning of each year, taking into account the responsibilities and performance of the individual director and having regard to relevant market comparisons from independent sources based on objective research conducted by NBSC.

The policy is to provide basic salaries at the median range identified by this research. The median was determined by reference to basic salary levels in a group of approximately 50 companies which were drawn from all sectors and had a similar market capitalisation to that of the company but excluded any companies that operated remuneration arrangements which the Committee believed did not reflect typical practice.

Following the Committee's review in late 2005 applying this policy, the Board agreed the following changes to the annual salaries of the executive directors with effect from 1 January 2006:

	1 January 2006 £'000	1 January 2005 £'000
S P Mahon	525	500
M W G Collins	290	265
J J Corr	290	265
I S Cummine	350	325

The increases to the basic salaries of M W G Collins and J J Corr were necessary to bring their salaries up to the median level for similar roles in the comparator group of companies and to take account of their specific financial expertise which is critical to the group's business. The increase to the basic salary of I S Cummine reflects the change to his responsibilities on 1 July 2005 when he became the Chief Operating Officer for the group as a whole as opposed to the Consumer Credit Division. The increase to the basic salary of S P Mahon reflects typical executive director salary inflation. In making these recommendations to the Board, the Committee also took account of the outstanding performance of the group over a number of years, including 2005.

In addition to basic salary, the executive directors receive certain benefits in kind, being a car, fuel provision, private medical insurance and permanent health insurance.

Annual Bonus

The targets which trigger annual cash bonuses are set by the Remuneration Committee. In 2005 these targets comprised the following three measures of performance: (i) the group's actual earnings per share ('EPS') growth; (ii) funds utilisation efficiency as measured against budget; and (iii) the achievement of each director's personal objectives. The maximum potential bonus payment to executive directors in respect of the year ended 31 December 2005 was restricted to 100% of basic salary, with a maximum of 75% being payable in respect of EPS growth, 15% in respect of funds utilisation efficiency and 10% in respect of the achievement of personal objectives. Any bonus earned over 75% of basic salary must be deferred into shares which will not be received by the executive directors for a further three years. Any such deferred shares would count for the purposes of the 'Matching Shares' element of the Long-Term Incentive Plan described more fully below, but would not be subject to further performance conditions.

The Committee has retained this structure for the 2006 executive directors' annual cash bonuses.

Bonuses do not form part of pensionable earnings.

Long-Term Incentives

The Remuneration Committee believes that share ownership by executive directors and senior executives strengthens the link between their personal interests and those of shareholders, and provides the opportunity for longer term motivation and retention. The company's policy is that the executive directors are required to build up and retain a shareholding in the company, primarily from their long-term incentive arrangements, equivalent to their annual salary. The Committee reviewed the company's long-term incentive arrangements during 2005 and concluded that grant levels, performance criteria and vesting schedules pertaining to these schemes remained appropriate to the company's current circumstances and prospects.

Long-Term Incentive Plan ('LTIP')

The LTIP was adopted in May 2005 to replace the Restricted Share Scheme, which expired in 2004. Participation is at the discretion of the Committee and participants include the executive directors and some other key senior executives who are best placed to influence the performance of the group.

The LTIP has two elements, an award of 'Performance Shares' and an award of 'Matching Shares' linked to an investment in Cattles plc shares. Awards will normally vest following the third anniversary of the date of grant provided that certain performance conditions have been satisfied and the participant remains in employment. Awards of Performance Shares may not be granted to any participant in any financial year under the LTIP if it would cause the aggregate market value of those shares to exceed 100% of the participant's basic salary (other than in exceptional circumstances, such as recruitment, where the limit is 200% of basic salary).

Awards of Matching Shares will be granted to the extent that participants acquire Cattles plc shares using their annual bonus ('Investment Shares'). Under the company's annual bonus plan, any annual bonus in excess of 75% of basic salary payable to an executive director must be deferred into the company's shares. These shares will be treated as Investment Shares that will qualify for the grant of Matching Shares. Participants will also be allowed to invest their cash bonus (but no other funds) on a voluntary basis into Cattles plc shares and treat those shares as Investment Shares. The maximum aggregate pre-tax value of bonus invested on both a compulsory and voluntary basis per annum is 37.5% of the individual's salary. Matching Shares can be awarded up to a maximum award ratio of 2:1 (free Matching Shares to Investment Shares), on a gross basis. If a participant sells his Investment Shares at any time during the three year performance period, this will reduce (on a pro-rata basis) the number of Matching Shares that may be transferable to him on vesting.

The vesting of Awards will depend on the company's performance over a single fixed three year performance period (i.e. with no 're-testing' facility) which will commence with the financial year in which the Awards are granted. Awards will vest by reference to the company's EPS growth in excess of the Retail Price Index ('RPI') over the three year performance period, comparing the company's EPS in the financial year prior to grant with its EPS in the third year following grant. For these purposes, EPS is calculated on the same basis as stated in the company's annual report and accounts, subject to the Committee using its discretion to take account of any material short-term effect arising from an acquisition or any exceptional item of profit or loss in a particular year, or to take account of changes in accounting standards.

Subject to the adjuster referred to below, the performance conditions relating to Awards made in 2005 are:

EPS growth of the company over the 3 year performance period	Percentage of Award that vests
Less than RPI +20%	0%
RPI +20%	30%
RPI +35% or more	100%
Between RPI +20% and RPI +35%	Between 30% and 100% on a straight line basis

In order to provide a comparative element to the performance conditions, the performance conditions will be adjusted by reference to the company's EPS performance over the performance period relative to an 'average' EPS growth of companies comprised in the FTSE 250 (the 'Index'), calculated by dividing the Index by the price/earnings ratio of the Index.

If the company's EPS growth over the performance period is lower than the average EPS growth of the Index, the level of vesting of Awards will reduce by 1% for every 4% (subject to a maximum reduction of 25%) that the company's EPS growth is lower than the Index 'average'. To the extent that the company's EPS growth is higher, the level of vesting of Awards will increase by 1% for every 4% up to (but not exceeding) the maximum level of vesting.

The Committee considers that the use of EPS in the LTIP is appropriate as it encourages the company's senior management team to deliver sustained exceptional EPS growth, with EPS being a widely used statistic in gauging the company's performance and valuing its shares.

No participants acquired Investment Shares and so no award of Matching Shares was made in 2005.

The LTIP operates in conjunction with an employee benefit trust ('Trust'), the trustee of which is Cattles Trustee Limited, a wholly owned subsidiary of Cattles plc. The directors of the trustee company are the members of the Remuneration Committee, all of whom are independent non-executive directors of the parent company, and none of whom is a beneficiary under the scheme. On the grant of Awards, the Trust purchases sufficient shares in the market to satisfy such awards, hence there is no issue of new shares. On the vesting of Awards, the Trust transfers the appropriate number of shares to the participants. The Trust will at no time hold more than 5% of the issued share capital of Cattles plc. The LTIP is funded by loans from the company to the Trust, which then acquires Cattles plc shares for the purpose of the LTIP.

Restricted Share Scheme

This scheme was established in 1994 and expired in 2004. The participants included the executive directors and some other key senior executives. In relation to the awards made contingently under the scheme, each participant was notionally awarded shares up to one times basic annual salary each year.

The number of long-term incentive shares which a participant ultimately receives will depend upon continued employment and performance conditions.

More particularly, EPS must grow by a minimum pre-determined amount, set by the Remuneration Committee at the time of the award, over a three year performance period before participants will become entitled to any shares. Target earnings growth is as follows:

Notionally awarded	Earliest vesting date	Three year target earnings growth
January 2003	April 2006	45% (i)
January 2004	April 2007	45% (i)

(i) In excess of the increase in the RPI to the extent that it exceeds 5%.

The provisional award of shares is established by comparing the actual earnings growth achieved by the company against the pre-determined target set for the relevant period. The maximum award will be made where the target has been met or exceeded. If the earnings growth achieved by the company is less than the target, then the provisional award will be reduced on a straight line basis, such that where the earnings growth is less than 66.67% of the target in respect of awards made in 2003 and 2004, no provisional award will be made.

When the provisional award has been calculated, the earnings growth achieved by the company is then compared with the average earnings growth achieved by the constituent companies included in the FTSE All Share Index and the Speciality and Other Financials Index. If the earnings growth achieved by the company is less than that achieved by the constituent companies of either index, the provisional award is reduced by 1% for every 4% by which the earnings growth of the company falls below that of the constituent companies in either index. The provisional award may be reduced by a maximum of 25% as a result of this comparison.

Equally, if the earnings growth achieved by the company exceeds that achieved by the constituent companies of either index, then the provisional award is increased by 1% for every 4% by which the earnings growth of the company exceeds that of either index, subject to the original notional award not being exceeded.

The Restricted Share Scheme operated in conjunction with the Trust in the same way as the LTIP.

Sharesave Scheme

This scheme was approved in 2003 and enables all employees, including executive directors, with more than 18 months' service at the date of invitation, to enter into a SAYE savings plan. At the end of five years, participants can exercise an option to acquire shares in the company at a fixed price determined at the start of the savings contract in accordance with the scheme rules. The exercise of options under this scheme is not subject to any performance conditions, in accordance with HM Revenue & Customs ('HMRC') rules.

The timing of invitations under this scheme is determined by the Board acting upon the recommendation of the Committee.

As at 31 December 2005 options to subscribe for 2,079,378 ordinary shares remained exercisable under the Sharesave Scheme.

Share Incentive Plan

The Share Incentive Plan was introduced in 2003. It is open to all eligible UK employees, including executive directors, and is an HMRC approved all-employee share plan.

Each year a sum of money is set aside as determined by the Board acting upon the recommendation of the Committee. The amounts attributable to eligible employees are determined by a formula linked to their salaries. The maximum award to any one employee during a year is £3,000.

Executive Share Option Schemes

Executive directors and senior executives have not participated in the Executive Share Option Schemes since being invited to participate in the LTIP and Restricted Share Scheme referred to above. No executive director has options outstanding or unexercised under any of the Executive Share Option Schemes.

Grants of options to senior executives of the group have been made by the Committee under two schemes. These are the Cattles Executive Share Option Scheme 1994 (the '1994 Scheme'), an Inland Revenue approved scheme, and the Cattles Executive Share Option Scheme 1996 (the '1996 Scheme'), which have both now expired. The exercise of options under both schemes is dependent upon the achievement of EPS-based performance criteria.

As at 31 December 2005 options to subscribe for 232,050 and 142,350 ordinary shares remained exercisable under the 1994 Scheme and the 1996 Scheme respectively.

Shareholder approval was obtained at the annual general meeting in May 2005 for the establishment of the Cattles Executive Share Option Scheme 2005 (the '2005 Scheme'), to replace the 1994 Scheme and the 1996 Scheme. The maximum award level under the 2005 Scheme will be 100% of salary, although it is likely that awards will be made at lower levels. Options will be subject to EPS growth targets over a single three year period. The executive directors and senior managers who participate in the LTIP will not be granted options under the 2005 Scheme, save where exceptional circumstances exist (such as senior recruitment) which result in the Committee considering it appropriate to grant both options under the 2005 Scheme and the LTIP, in which case the performance conditions set will take full account of market and best practice. As at 31 December 2005 no options had been granted under the 2005 Scheme.

International Financial Reporting Standards

The Committee was mindful of the effect of the transition to International Financial Reporting Standards ('IFRS') on the EPS-based performance conditions used in the annual bonus, the LTIP, the Restricted Share Scheme and the Executive Share Option Schemes. At the request of the Committee the company's auditors have reviewed the conversion of the EPS growth targets from UK GAAP to IFRS.

Pension and Life Assurance Arrangements

S P Mahon, J J Corr and I S Cummine have individual personal pension plans into which the company contributed 20% of basic salary up to 31 December 2005. Following a review of the executive directors' pension arrangements in December 2005 based on research undertaken by NBSC relating to market practice in connection with pension provision, since 1 January 2006 the company contributes 25% of S P Mahon's basic salary into his personal pension scheme, with contributions remaining at 20% of basic salary for J J Corr and I S Cummine. M W G Collins is a member of the Cattles Staff Pension Fund and is subject to the statutory pension cap. He therefore receives payments representing 20% of the difference between his basic salary and that cap for contribution to additional pension schemes. No other payments to directors are pensionable.

Cattles Staff Pension Fund is a funded, HMRC approved, final salary occupational pension scheme with a contribution rate of 5% of pensionable salary from the employee. Its main features, which apply to all members on the same terms, are:

(i) pension is payable at normal pension age of 65 at 1/60th of final pensionable salary for each year of pensionable service up to a maximum of 40/60ths

(ii) death in service life assurance cover is provided at four times pensionable salary

(iii) pension is payable in the event of early retirement due to ill health and to spouse on death of member.

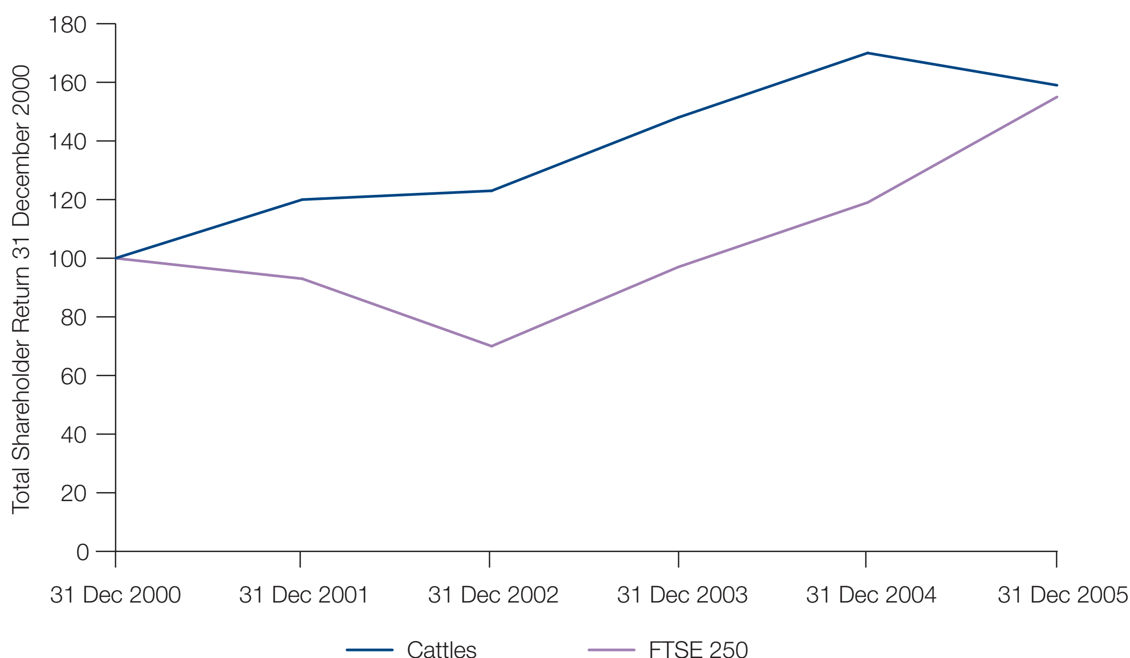
The directors are provided with death in service life assurance cover of four times basic salary.

The Committee is aware of the impending changes to pensions legislation and will keep under review the company's pension provision in light of this and market practice generally.

Performance Graph of Total Shareholder Return
Five Years to 31 December 2005

In the opinion of the directors, the FTSE 250 index is the most appropriate index against which the total shareholder return of Cattles plc should be measured because it is an index containing similar sized companies to Cattles plc.

The graph shows the value of £100 invested in Cattles plc on 31 December 2000 compared with the value of £100 invested in the FTSE 250 index. The result is that Cattles plc has outperformed the FTSE 250 index, on that basis, over the following five years:



Service Contracts

It is the company's policy that executive directors' service contracts should be rolling contracts requiring a notice period of one year to be given by the company and six months to be given by each director. Each of the executive directors entered into service contracts, including these terms, on the date of their appointment to the Board. In order to reflect changes in other terms agreed since the original service contracts were entered into and to incorporate changes in employment legislation, the executive directors entered into new service contracts on 5 March 2003. The company has the right to terminate a director's employment by paying to the director the remuneration which he would have been entitled to receive from the company in respect of the relevant period of notice. If a director ceases to be employed, for any reason, by the company before the end of the financial year, any bonus payment will be at the sole discretion of the Remuneration Committee. It is the Committee's policy that, when determining the amount of any compensation paid to a departing director, the Committee will take into account the director's obligation to mitigate his loss, to the extent it is possible to do so under the terms of the relevant contract.

Report of the Board on Directors' Remuneration

Non-executive Directors

Non-executive directors are appointed for an initial period of three years, although either the company or the director may terminate the appointment by giving six months' written notice. They are subject to re-election at an annual general meeting at least every three years in common with all directors. They do not have service contracts and may not participate in any bonus scheme, share scheme, pension scheme, car scheme or healthcare scheme operated by the company. The dates of their current letters of appointment are: B Cottingham 30 June 1999; D A Haxby 22 June 1999; N N Broadhurst 23 March 2001; F Dee 30 June 2004; A J McWalter 6 September 2005; and M A Young 1 February 2006. In 2005 the Chairman, B Cottingham, received a fee of £150,000 which was determined by the Committee on the same basis as applied to the determination of the basic salaries of the executive directors. In 2005 the basic non-executive director's fee (calculated by reference to practice adopted in the market generally and taking account of the time commitment and the responsibilities of the non-executive directors) was £40,000, with D A Haxby receiving an extra £10,000 fee for his services as Senior Independent Director and chairman of the Remuneration Committee and N N Broadhurst receiving an extra £10,000 fee for his services as chairman of the Audit Committee. Reasonable expenses that they may incur in the furtherance of their duties are repaid by the company.

Audited Information

Aggregate Directors' Remuneration

The following table sets out the basic salary, annual bonus and benefits in kind for each of the executive directors and the fees of the non-executive directors in respect of the year ended 31 December 2005 together with comparative figures for the preceding year.

	Basic salary	Fees	Benefits in kind	Annual bonus	Total	
					2005	2004
	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors						
S P Mahon	500	–	28	352	880	803
M W G Collins	265	–	21	190	476	401
J J Corr	265	–	25	187	477	404
I S Cummine	325	–	27	229	581	530
Non-executive Directors						
B Cottingham	–	150	–	–	150	125
N N Broadhurst	–	50	–	–	50	48
D A Haxby	–	50	–	–	50	48
F Dee	–	40	–	–	40	19
A J McWalter (appointed 22 September 2005)	–	11	–	–	11	–
Total	1,355	301	101	958	2,715	2,378

The bonuses paid in respect of 2005 were in one case 71.7% and in three cases 70.4% out of a maximum of 100% of basic salary.

Directors' Long-Term Incentives

Participation in the LTIP and Restricted Share Scheme ('RSS') is as follows:

	Award	No. of shares notionally held at 1 January 2005	Notionally awarded in the year	Vested in the year	Share price at vesting date (p)	Total value at vesting date £'000	Lapsed in the year	Potential interest in shares at 31 December 2005	Share price at date of notional award (p)	Amount charged against profit in the year £'000	Notional award date	Earliest vesting date
Executive Directors												
S P Mahon	RSS	121,107	–	121,107	320.25	388	–	–	289.00	–	01.01.02	06.04.05
	RSS	145,580	–	–	–	–	–	145,580	288.50	103	01.01.03	06.04.06
	RSS	140,613	–	–	–	–	–	140,613	334.25	113	01.01.04	06.04.07
	LTIP	–	171,262	–	–	–	–	171,262	298.00	79	23.05.05	23.05.08
M W G Collins	RSS	57,093	–	57,093	320.25	183	–	–	289.00	–	01.01.02	06.04.05
	RSS	71,057	–	–	–	–	–	71,057	288.50	50	01.01.03	06.04.06
	RSS	68,810	–	–	–	–	–	68,810	334.25	55	01.01.04	06.04.07
	LTIP	–	90,768	–	–	–	–	90,768	298.00	42	23.05.05	23.05.08
J J Corr	RSS	60,553	–	60,553	320.25	194	–	–	289.00	–	01.01.02	06.04.05
	RSS	72,790	–	–	–	–	–	72,790	288.50	52	01.01.03	06.04.06
	RSS	68,810	–	–	–	–	–	68,810	334.25	55	01.01.04	06.04.07
	LTIP	–	90,768	–	–	–	–	90,768	298.00	42	23.05.05	23.05.08
I S Cummine	RSS	76,124	–	76,124	320.25	244	–	–	289.00	–	01.01.02	06.04.05
	RSS	95,320	–	–	–	–	–	95,320	288.50	67	01.01.03	06.04.06
	RSS	91,249	–	–	–	–	–	91,249	334.25	73	01.01.04	06.04.07
	LTIP	–	111,320	–	–	–	–	111,320	298.00	52	23.05.05	23.05.08
Total – directors		1,069,106	464,118	314,877		1,009	–	1,218,347		783		
Other executives	RSS	58,347	–	43,200	320.25	138	15,147	–	289.00	–	01.01.02	06.04.05
	RSS	84,417	–	–	–	–	15,554	68,863	288.50	49	01.01.03	06.04.06
	RSS	77,195	–	–	–	–	13,742	63,453	338.00	47	01.04.04	06.04.07
	LTIP	–	82,290	–	–	–	–	82,290	298.00	38	23.05.05	23.05.08
Total		1,289,065	546,408	358,077		1,147	44,443	1,432,953		917		

In respect of those shares notionally awarded during 2002, the performance criteria were attained and accordingly the shares vested in the directors and executives in April 2005. In respect of those shares notionally awarded on 1 January 2003, the EPS growth achieved by the company during the three years ended 31 December 2005 exceeded the pre-determined target and the average EPS growth achieved by the constituent companies in the Speciality and other Financials Index but was less than the average EPS growth achieved by the constituent companies in the FTSE All Share Index and as a result 95% of the shares notionally awarded on 1 January 2003 will vest in the directors and executives on 6 April 2006.

The difference between the numbers of shares notionally held by other executives on 1 January 2005 and the numbers of shares which vested in April 2005 and in which the other executives were potentially interested at 31 December 2005 was the result of one of the other executives ceasing to participate in the RSS following the sale of Cattles Commercial Finance Limited by the company.

The performance criteria attaching to the RSS are set out in the fifth to seventh paragraphs of the 'Restricted Share Scheme' section of this report on page 29. The performance criteria attaching to the LTIP are set out in the fourth to seventh paragraphs of the 'LTIP' section of this report on page 28.

As at 1 January 2005 the employee benefit trust owned 1,289,065 shares. On 6 April 2005 the employee benefit trust transferred 358,077 shares on the vesting of awards under the scheme. On 19 October 2005 the employee benefit trust acquired 501,965 shares at a price of 275p. As at 31 December 2005 the employee benefit trust owned 1,432,953 shares.

Sharesave Scheme

Ordinary shares under option granted to executive directors under the Sharesave Scheme ('SAYE') are as follows:

	1 January and 31 December 2005	Exercise price (p)	Date from which exercisable	Expiry date
Executive Directors				
S P Mahon	5,549	285.6	01.12.08	01.06.09
J J Corr	5,549	285.6	01.12.08	01.06.09
I S Cummine	2,867	200.9	01.12.06	01.06.07
I S Cummine	3,418	285.6	01.12.08	01.06.09
Total	17,383			

No options have been granted or have been exercised or have lapsed during the year. The mid-market price of the company's shares at 31 December 2005 was 329.25p and the range during the year was 268.25p to 420p.

Share Incentive Plan

Allocations under the Share Incentive Plan represent the market value of shares at the date of appropriation to the trustees on behalf of the directors, relating to the allocation from profits of the previous year.

	2005 £'000	2004 £'000
Executive Directors		
S P Mahon	3	3
M W G Collins	3	3
J J Corr	3	3
I S Cummine	3	3
Total	12	12

Directors' Pension Entitlements

Company contributions during the year were as follows:

	2005 £'000	2004 £'000
Executive Directors		
S P Mahon	100	94
M W G Collins	32	26
J J Corr	53	46
I S Cummine	65	61

Set out below are the Listing Rules and Companies Act disclosures providing details of the Cattles Staff Pension Fund benefits to which one executive director is entitled at 31 December 2005.

	Additional accrued benefits earned in the year (i) £'000	Additional accrued benefits earned in the year (net of inflation) (i) £'000	Transfer value of additional accrued benefits earned in the year (net of inflation) less director's contribution (i) £'000	Accrued pension entitlement at 31 December 2005 £'000	Transfer value of accrued pension entitlement at 31 December 2005 £'000	Transfer value of accrued pension entitlement at 31 December 2004 £'000	Increase in transfer value of accrued pension entitlement £'000	Increase in transfer value of accrued pension entitlement less director's contribution £'000
Executive Director								
M W G Collins	2	2	20	16	122	97	25	20

(i) Under the Listing Rules disclosure requirements, additional accrued benefits earned in the year exclude inflation. Under the Companies Act disclosure requirements, inflation is included.

The accrued pension entitlement shown in respect of M W G Collins is the amount that would be paid each year to the director in the form of a pension on retirement at age 65 in the event of him having left service at the end of the year. The accrued pension entitlement includes, where relevant, entitlements earned as an employee, prior to becoming a director, as well as those earned for qualifying services after becoming a director. The increase in the accrued pension entitlement is the difference between the accrued benefit at the year end and that at the previous year end. Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

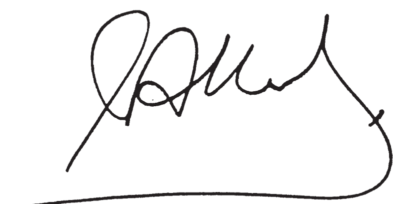
The transfer values of the additional accrued benefits and of the accrued pension entitlement in respect of qualifying services represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the director's pension benefits that he earned in respect of qualifying services. They do not represent sums payable to the director and, therefore, cannot be added meaningfully to annual remuneration.

The transfer value of the additional accrued benefits earned in the year less director's contribution is the transfer value of the additional accrued benefits in respect of qualifying services earned in the year after deducting the director's personal contribution to the scheme during the year.

The increase in the transfer value less director's contribution is the increase in the transfer value of the accrued benefits in respect of qualifying services during the year after deducting the director's personal contributions to the scheme.

Approval

This report was approved by the Board on 16 March 2006 and signed on its behalf by:



David Haxby
Chairman of the Remuneration Committee
16 March 2006

Independent Auditors' Report

To the Members of Cattles plc

We have audited the group and parent company financial statements (the 'financial statements') of Cattles plc for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report of the Board on Directors' Remuneration that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the report entitled 'Cattles approach to Corporate and Social Responsibility', the Report of the Directors, the Report of the Board on Corporate Governance, the Report of the Audit Committee, and the unaudited part of the Report of the Board on Directors' Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005 and cash flows for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
16 March 2006

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Income Statement

For the year ended 31 December 2005

	Notes	Group 2005 £'000	2004 £'000
Revenue	4,7	**705,210**	697,257
Finance costs	8	**(88,331)**	(77,499)
Other cost of sales	9	**(289,654)**	(291,146)
Gross profit		**327,225**	328,612
Administrative expenses		**(212,091)**	(226,344)
Profit before taxation		**115,134**	102,268
Taxation	11	**(34,645)**	(30,921)
Profit for the year attributable to equity holders of the parent	4,30	**80,489**	71,347
Earnings per share			
– Basic	14	**24.56p**	21.83p
– Diluted	14	**24.52p**	21.80p

Balance Sheets

As at 31 December

	Notes	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
ASSETS					
Non-current assets					
Goodwill	15	**39,520**	40,000	**–**	–
Other intangible assets	16	**22,409**	10,729	**26**	14
Property, plant and equipment	17	**26,925**	32,461	**374**	611
Investment in subsidiary undertakings	18	**–**	–	**177,705**	176,066
Loans and receivables	19	**984,499**	825,858	**–**	–
Trade and other receivables	20	**96**	–	**4,295**	3,910
Deferred tax assets	21	**28,507**	56,137	**15,722**	10,233
Derivative financial instruments	25	**304**	895	**304**	895
		1,102,260	966,080	**198,426**	191,729
Current assets					
Inventories		**3,492**	2,500	**–**	–
Loans and receivables	19	**689,213**	658,374	**1,558,429**	1,530,497
Trade and other receivables	20	**34,818**	25,140	**2,255**	1,556
Derivative financial instruments	25	**–**	14	**–**	14
Cash and cash equivalents	22	**96,135**	88,858	**2,374**	3,684
		823,658	774,886	**1,563,058**	1,535,751
Total assets		**1,925,918**	1,740,966	**1,761,484**	1,727,480
LIABILITIES					
Current liabilities					
Borrowings	23	**(245,703)**	(40,901)	**(272,356)**	(193,946)
Current tax liabilities		**(34,109)**	(50,798)	**(30,437)**	–
Derivative financial instruments	25	**(263)**	(1,053)	**(263)**	(1,053)
Trade and other payables	24	**(111,606)**	(60,493)	**(3,249)**	(4,112)
Provisions	27	**(2,367)**	(4,268)	**(1,981)**	–
		(394,048)	(157,513)	**(308,286)**	(199,111)
Non-current liabilities					
Borrowings	23	**(1,111,468)**	(1,185,737)	**(1,103,910)**	(1,178,950)
Retirement benefit obligation	33	**(34,719)**	(28,930)	**(34,719)**	(28,930)
Derivative financial instruments	25	**(20,196)**	(22,523)	**(20,196)**	(22,523)
Trade and other payables	24	**(3,314)**	(9,214)	**(5,878)**	(3,607)
Provisions	27	**(1,235)**	(1,281)	**–**	–
		(1,170,932)	(1,247,685)	**(1,164,703)**	(1,234,010)
Total liabilities		**(1,564,980)**	(1,405,198)	**(1,472,989)**	(1,433,121)
Net assets		**360,938**	335,768	**288,495**	294,359
SHAREHOLDERS' EQUITY					
Share capital	28	**32,887**	32,868	**32,887**	32,868
Share premium account	30	**142,007**	141,614	**142,007**	141,614
Other reserves	31	**(8,788)**	(5,412)	**34,574**	37,565
Retained earnings	30	**194,832**	166,698	**79,027**	82,312
Total shareholders' equity	30	**360,938**	335,768	**288,495**	294,359

The financial statements were approved and authorised for issue by the Board on 16 March 2006 and were signed on its behalf by:

Seán Mahon
Chief Executive

James Corr
Finance Director

Statements of Recognised Income and Expense

For the year ended 31 December 2005

		Group		Company	
	Notes	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Profit for the year	30	**80,489**	71,347	**49,070**	47,841
Cash flow hedges:					
– net fair value losses, net of tax		**(6,671)**	–	**(6,671)**	–
– recycled and reported in net profit		**3,680**	–	**3,680**	–
Amortisation of transitional hedging reserve	30	**–**	3,520	**–**	3,520
Actuarial losses on defined benefit pension scheme, net of tax	30	**(4,806)**	(2,524)	**(4,806)**	(2,524)
Vesting of share awards (outside scope of IFRS 2)	30	**(1,006)**	(923)	**(1,006)**	(923)
Net (losses)/gains not recognised in the income statement		**(8,803)**	73	**(8,803)**	73
Total recognised income for the year attributable to equity holders of the parent		**71,686**	71,420	**40,267**	47,914

Cash Flow Statements

For the year ended 31 December 2005

	Notes	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Cash flows from operating activities					
Cash in/(out)flow from operations	32	**(103,671)**	(133,180)	**63,148**	64,372
Tax (paid)/repaid		**(22,123)**	(22,507)	**1,675**	16,226
Net cash in/(out)flow from operating activities		**(125,794)**	(155,687)	**64,823**	80,598
Cash flows from investing activities					
Acquisition of subsidiary undertakings	15	**(18)**	(18)	**(18)**	(18)
Disposal of subsidiary undertakings (net of cash and overdrafts transferred and contingent consideration repaid)		**70,842**	–	**69,581**	–
Purchase of property, plant and equipment		**(3,963)**	(5,506)	**(13)**	(55)
Proceeds from sale of property, plant and equipment		**4,319**	5,108	**107**	672
Purchase of intangible assets		**(12,304)**	(8,851)	**(25)**	(7)
Proceeds from sale of investments at fair value through profit or loss		**–**	48,911	**–**	–
Dividends received		**–**	–	**69,215**	60,699
Net cash inflow from investing activities		**58,876**	39,644	**138,847**	61,291
Cash flows from financing activities					
Proceeds from issue of share capital	30	**412**	1,836	**412**	1,836
Purchase of own shares	30	**(1,391)**	(1,135)	**–**	–
Issue of loan to Employee Benefit Trust		**–**	–	**(1,391)**	(1,135)
Issue of new borrowings		**127,000**	415,500	**127,000**	410,000
Repayment of borrowings		**(5,227)**	(220,795)	**(1,272)**	(216,408)
Issue of new intra-group borrowings		**–**	–	**(282,866)**	(320,139)
Dividends paid to shareholders	12	**(47,501)**	(41,481)	**(47,501)**	(41,481)
Net cash in/(out)flow from financing activities		**73,293**	153,925	**(205,618)**	(167,327)
Net increase/(decrease) in cash and cash equivalents		**6,375**	37,882	**(1,948)**	(25,438)
Cash and cash equivalents at 1 January		**83,214**	45,332	**(1,956)**	23,482
Cash and cash equivalents at 31 December		**89,589**	83,214	**(3,904)**	(1,956)
For the purposes of the cash flow statement, cash and cash equivalents comprise:					
Cash at bank and in hand		**16,512**	13,872	**2,374**	3,684
Short-term bank deposits		**79,623**	74,986	**–**	–
Cash and cash equivalents	22	**96,135**	88,858	**2,374**	3,684
Bank overdrafts included within current borrowings		**(6,546)**	(5,644)	**(6,278)**	(5,640)
		89,589	83,214	**(3,904)**	(1,956)

Notes to the Accounts

For the year ended 31 December 2005

1 Accounting policies

Cattles plc (the 'company') is a company domiciled in the UK. The consolidated financial statements of the company for the year ended 31 December 2005 comprise the company and its subsidiaries (together referred to as the 'group').

1.1 Statement of compliance

Prior to 2005, the group prepared its audited financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). From 1 January 2005, the group was required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

These consolidated and company financial statements have been prepared in accordance with IFRS and its interpretations issued by the International Accounting Standards Board ('IASB'), including the amendment to IAS 19 'Employee Benefits' (2004), as adopted by the EU.

These are the group's first consolidated financial statements to which IFRS 1 'First-time Adoption of International Financial Reporting Standards' has been applied. The date of transition to IFRS for the group and the company was 1 January 2004 and the opening IFRS balance sheets of the group and the company have been prepared as at that date. All comparative figures in respect of 2004, including those relating to IAS 32 'Financial Instruments: Disclosure and Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' (with the exception of certain disclosures as permitted by IFRS 4 paragraph 42), have been restated to reflect the adoption of IFRS. Details of which of the optional IFRS 1 exemptions have been applied, as well as the reconciliations and explanations of the prior year effect of adopting IFRS on the equity (net assets), profits and cash flows of the group and the company are provided in note 38 on pages 85 to 101 and pages 101 to 108 respectively.

1.2 Basis of preparation

The financial statements are rounded to the nearest thousand. They are prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2 on page 51.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and company financial statements and in preparing an opening IFRS balance sheet as at 1 January 2004 for the purpose of the transition to IFRS. The accounting policies have been applied consistently by group entities.

1 Accounting policies continued

1.2 Basis of preparation (continued)

At the date of authorisation of these financial statements, the following new IFRS, amendments to existing standards and interpretations were in issue but were not yet effective, and therefore had not been adopted by the group:

- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' – The Fair Value Option
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' – Financial Guarantee Contracts
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' – Cash Flow Hedge Accounting of Forecast Intra-group Transactions
- Amendment to IAS 21 'The Effects of Changes in Foreign Exchange Rates' – Net Investment in a Foreign Operation
- Amendment to IAS 1 'Presentation of Financial Statements' – Capital Disclosures
- IFRS 6 'Exploration for and evaluation of mineral resources'
- IFRS 7 'Financial Instruments: Disclosures'
- IFRIC 4 'Determining whether an agreement contains a lease'
- IFRIC 5 'Rights to interests arising from decommissioning, restoration and environmental funds'
- IFRIC 6 'Liabilities arising from participating in a specific market – Waste electrical and electronic equipment'
- IFRIC 7 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'
- IFRIC 8 'Scope of IFRS 2'
- IFRIC 9 'Reassessment of embedded derivatives'

A review of the impact of these new standards, amendments and interpretations is currently on-going. At this stage we do not believe that they will give rise to any significant financial impact, other than revised disclosures in relation to financial instruments and capital.

1.3 Consolidation

A business combination is recognised where separate entities or businesses have been brought together within the group. Subsidiaries are all entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than 50% of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases. All subsidiaries share the same reporting date, 31 December, as Cattles plc.

The purchase method of accounting is used to account for business combinations made by the group. The cost of a business combination is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination.

Contingent consideration is included in the cost of a business at the acquisition date only if the consideration is probable and can be reliably measured, and is discounted using an appropriate discount rate. If the future events upon which the contingent consideration is based do not occur or the estimate needs to be revised or if contingent consideration, which had not been initially included, does become probable and can be reliably measured, the cost of the business combination, and any associated goodwill, is adjusted accordingly.

Identifiable assets, liabilities and contingent liabilities acquired in the business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is credited to the income statement in the period of acquisition.

Inter-company income, expenses, balances and unrealised gains or losses on transactions between group companies are eliminated on consolidation.

1 Accounting policies continued

1.4 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. For management purposes, the group is organised into three operating divisions, Consumer Credit, Debt Collection and Corporate Services. These divisions are, therefore, the basis on which the group reports its primary segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments. The group's operations are located only in the UK. Management considers that all regions of the UK are subject to the same risks and returns, such that no secondary geographic segments exist.

1.5 Financial assets

Management determines the classification of the group's financial assets at initial recognition into one of the following categories and re-evaluates this classification at each reporting date:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money directly to a customer with no intention of trading the receivable. This classification includes advances made to customers under hire purchase agreements and acquired default debt.

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified as at fair value through profit or loss if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives (refer to 1.23) are also categorised as held for trading unless they are designated as hedges.

Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group has a positive intention and ability to hold to maturity. Were the group to sell a significant amount of held-to-maturity assets the entire category would be tainted and reclassified as available-for-sale.

Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The group has not held any held-to-maturity or available-for-sale financial assets at any point during the period.

Loans and receivables are recognised when cash is advanced to borrowers, or at the date of purchase in respect of acquired default debt. These assets are initially recognised at fair value plus direct and incremental transaction costs. Loans and receivables are carried at amortised cost using the effective interest method.

Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade-date, the date on which the group commits to purchase or sell the asset. Financial assets at fair value through profit or loss are initially recognised, and subsequently carried, at fair value. Gains and losses arising from changes in the fair value of these financial assets are included in the income statement in the period in which they arise. The group's financial assets at fair value through profit or loss relate solely to derivative instruments which cannot be designated as hedges. Consequently, they are classified as derivative financial instruments in the balance sheet within assets or liabilities dependent on the individual instruments' fair value at the reporting date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all the risks and rewards of ownership.

1 Accounting policies continued

1.6 Revenue recognition

Revenue comprises the fair value receivable for the sale of goods and services, net of value-added tax, and is recognised as follows:

1.6.1 Interest income

Interest income is recognised in the income statement for all financial assets measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash flows through the expected life, or contractual term if shorter, of the financial asset to the net carrying amount of the financial asset. When calculating the EIR, the group estimates cash flows considering all contractual terms of the financial instruments, such as early settlement options, but does not include an expectation for future credit losses. The calculation includes all fees charged to customers, such as acceptance or similar fees, and direct and incremental transaction costs, such as broker commissions and certain agents' remuneration. All income relating to payment protection insurance is regarded as being part of the group's economic return on the loans, hence the commission element is a constituent part of the EIR and is included within interest income.

In respect of default debt acquired by the Debt Collection division, the EIR calculation is based on an estimate of expected collections from the acquired debt and also includes initial court costs.

Amounts due from lessees under finance leases and hire purchase contracts are recorded as receivables at the amount of the group's net investment in the lease. Finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment (before tax) outstanding in respect of the lease.

Interest income continues to be recognised at the EIR once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, irrespective of the terms of the loan and whether interest has been suspended on the customer's account. This is referred to as the 'gross-up adjustment' to income and is offset by a corresponding 'gross-up adjustment' to the loan loss provisioning charge (refer to 1.7).

1.6.2 Insurance and brokerage income

The Consumer Credit division offers payment protection and other insurance products, such as health, life and mechanical breakdown insurance, to its customers for which a commission is received from third party fronting insurers.

Commission received from third party insurers for the brokering of the sale of insurance products, for which the group does not bear any underlying insurance risk, is recognised and credited to the income statement when the brokerage service has been provided. Commission relating to other insurance products, for which the group bears the underlying insurance risk, is recognised in line with the incidence of this risk.

Income from insurance profit share arrangements with the fronting insurer is recognised on an effective interest method in respect of payment protection insurance and in line with the incidence of risk in respect of other insurance products.

Reinsurance premiums receivable are accounted for net of cancellations. The recognition of reinsurance premium income depends on the type of insurance policy. Reinsurance premium income arising on payment protection policies is recognised on an effective interest method and reinsurance premium income arising on other policies is recognised in line with the incidence of risk. Unearned premium income relating to payment protection insurance is held within loans and receivables and that relating to other insurance products is held as deferred income within trade and other payables.

Brokerage commissions charged to third parties for the introduction of loans to third party lenders are credited to the income statement when the service has been provided.

1.6.3 Sale of goods

Sales of goods, principally motor vehicles, are recognised when the group entity has delivered the product to the customer, the customer has accepted the product and collectibility of the related receivable is reasonably assured.

1.6.4 Other income

Other income includes fees and commissions charged to customers and third parties for the collection of debts and fees charged for the provision of debt factoring facilities, which are credited to the income statement when the service has been provided.

1 Accounting policies continued

1.7 Impairment of loans and receivables

In respect of loans and receivables, including receivables under hire purchase contracts, the group assesses on an on-going basis whether there is objective evidence that a loan asset or a group of loan assets is impaired. A loan asset or a group of loan assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and the loss event has an impact on the estimated future cash flows of the loan asset or group of loan assets that can be reliably estimated.

The group first assesses whether objective evidence of impairment exists individually for loan assets that are individually significant, and either individually or collectively for loan assets that are not individually significant.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loan asset's original EIR. The carrying amount of the asset is reduced through the use of a loan loss provision. The amount of the loss is recognised in the income statement as a loan loss provisioning charge within other cost of sales, except in the case of acquired default debt, where any impairment adjustment is taken to revenue.

For the purposes of a collective evaluation of impairment, loan assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of loan assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Where interest income continues to be recognised on impaired loans, which cannot be collected from the customer due to the interest being fixed at the outset or interest having been suspended on the customer's account, referred to as the 'gross-up adjustment' to income, a corresponding loan loss provisioning charge is made. This is referred to as the 'gross-up adjustment' to the loan loss provisioning charge (refer to 1.6.1).

1.8 Insurance claims

Insurance claims arising from reinsured insurance policies are accounted for on a notified basis and included in the 'in the course of payment' ('ICOP') reserve. In addition, a provision is recognised for claims incurred but not yet reported ('IBNR') in relation to policies other than payment protection insurance (where the risk of claims under these policies is already reflected in the loan loss provision). The ICOP reserve is held within trade and other payables and the IBNR reserve is held within provisions.

Claims reserves are based on the latest available information provided by the fronting insurers. Provisioning for claims incurred but not reported is based on an estimate from the fronting insurers, derived from historic experience.

1.9 Foreign currency translation

1.9.1 Functional and presentational currency

The group's financial statements are presented in Pounds Sterling, which is the company's functional and presentational currency. All subsidiaries of the group have Pounds Sterling as their functional currency.

1.9.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as part of finance costs in relation to borrowings and as part of administrative expenses in relation to other monetary assets or liabilities.

1 Accounting policies continued

1.10 Intangible assets

1.10.1 Goodwill

Goodwill arising on acquisition represents the excess of the cost of a business combination over the fair values of the group's share of the identifiable net assets acquired. Goodwill is not amortised, but is reviewed at least annually for impairment. For the purpose of impairment testing, goodwill is allocated to cash generating units ('CGUs'). Each CGU is consistent with the group's primary reporting segments. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Up to 31 December 1997 under previous accounting policies, goodwill arising on acquisitions was recognised as a deduction from equity. On the subsequent disposal of any business to which goodwill had been recognised as a deduction from equity, the goodwill remains within equity and is not transferred to the income statement.

1.10.2 Computer software

Acquired software licenses are capitalised as intangible assets and amortised over their useful lives (3-7 years) on a straight line basis.

Costs that are directly associated with the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 'Intangible Assets', are recognised as internally-generated intangible assets. Direct costs include the employment costs of internal software developers.

All other software development and maintenance costs are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated useful lives (5-7 years) on a straight line basis. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

1.11 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost represents expenditure that is directly attributable to the purchase of the asset. The group does not capitalise any borrowing costs. Certain land and buildings are held at previous revalued amounts less subsequent accumulated depreciation as these amounts have been taken as their deemed cost as at the date of transition to IFRS in accordance with the exemption under IFRS 1.

Land and buildings are not subject to regular revaluations.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate the costs to their residual values over their estimated useful lives, as follows:

Freehold buildings	2% pa
Leasehold buildings	2% to 20% pa
Fixtures and office equipment	10% to 20% pa
Computer hardware	20% to 33⅓% pa
Motor vehicles	20% pa
Assets held for rental	20% pa

Assets held for rental comprised audio-visual electrical appliances, such as televisions, DVD and VCR players, which were hired by customers under a rental agreement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

1 Accounting policies continued

1.12 Investments in subsidiary undertakings

Investments in subsidiary undertakings are initially recognised at cost. The company recognises income from the investment only to the extent that it receives distributions from post-acquisition accumulated profits. Distributions received in excess of such profits are regarded as a recovery of investment and recognised as a reduction in the cost of the investment.

At each reporting date, an assessment is made as to whether there is any indication that the investment may be impaired. If such an indication exists, the company estimates the investment's recoverable amount. The investment is written down to the recoverable amount if this is lower than its carrying value. The impairment loss is recognised in the company's income statement.

1.13 Inventories

Inventories comprise motor vehicles held for resale and are stated at the lower of actual cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less variable selling expenses.

1.14 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held with banks with maturity dates of less than 3 months and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

1.15 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably measured.

1.16 Employee benefits

1.16.1 Short-term benefits

Wages, salaries, commissions, bonuses, social security contributions, paid annual leave and non-monetary benefits, including death-in-service premiums, are accrued in the period in which the associated services are rendered by employees of the group.

1.16.2 Pension obligations

The group has both a defined benefit and a number of defined contribution pension plans. The assets of the defined benefit pension plan are held in a separate trustee administered fund.

The present value of the defined benefit obligation less the fair value of the plan assets is recognised in the balance sheet as the retirement benefit obligation. This obligation is recognised in the company's balance sheet since this entity is the plan's sponsoring employer. The defined benefit obligation is calculated annually by independent actuaries using the projected credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability. The defined benefit obligation does not include a reserve for death-in-service benefits or non-investment related expenses.

The fair value of plan assets is based on bid prices at each balance sheet.

The total pension charge arising from the defined benefit scheme is included within administrative expenses. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are immediately recognised in the statement of recognised income and expense. Past service costs are recognised immediately within the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time ('the vesting period'). In this case, past service costs are amortised on a straight line basis over the vesting period.

For defined contribution plans, the group pays contributions into privately administered pension plans on a contractual basis. The contributions are recognised as an employee benefit expense as they fall due.

The group provides no other post-retirement benefits to its employees or directors.

1 Accounting policies continued

1.16.3 Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either the termination of employment or a voluntary redundancy offer.

1.16.4 Share-based payments

The group operates a number of equity-settled share-based payment plans. In respect of share awards granted after 7 November 2002 (and not vested by 1 January 2005), in accordance with IFRS 2 'Share-based Payment', an expense is recognised in respect of the fair value of employee services received in exchange for the grant of shares or share options. A corresponding amount is recorded as an increase in equity within retained earnings. The expense is spread over any relevant vesting period and is calculated by reference to the fair value of the shares or share options granted, excluding the effect of any non-market vesting conditions.

In arriving at fair values, the Black-Scholes pricing model is used and various assumptions are made, for example, on expected forfeiture rates, dividend yields, share price volatility and risk free rates. The estimate for the number of options that are expected to become exercisable is revised at each balance sheet date. Any impact from the revision of original estimates is recognised in the income statement over the remaining vesting period.

On transition to IFRS, the group elected not to apply IFRS 2 to share awards granted before 7 November 2002, such that no expense has been or is being recognised for them in the income statement. Consequently, on the vesting of these awards, the cost of the shares is recognised directly in retained earnings.

1.17 Leasing – as lessee

Leases of property, plant and equipment and computer software where the group has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases or hire purchase contracts are capitalised on inception of the agreement at an amount equal to their fair value or, if lower, the present value of the minimum lease payments. The interest element of the lease cost is charged to the income statement, within administrative expenses, over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment and software licenses acquired under finance leases or hire purchase contracts is depreciated/amortised over the shorter of the period of the agreement and the estimated useful lives of the assets.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement, within administrative expenses, on a straight line basis over the period of the lease.

1.18 Borrowings

Borrowings include bank borrowings, debenture loans and other borrowings, overdrafts and obligations under finance leases and hire purchase contracts.

Bank borrowings, debenture loans and other borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. These borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

1.19 Current tax

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed. It is calculated using rates of tax that have been enacted by the balance sheet date.

1.20 Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is determined using tax rates and laws that have been enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

1 Accounting policies continued

1.21 Share capital

Ordinary shares are classified as equity.

Shares are recorded at their nominal value with any surplus received on their issue taken to the share premium account. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where the company purchases its own shares, being held by the trustee of the Employee Benefit Trust in respect of the Long-Term Incentive Plan and Restricted Share Scheme, the consideration paid, including any directly attributable incremental costs, is deducted from equity on consolidation. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs, is also included in equity on consolidation. These transactions are classified as 'own shares held' within other reserves.

The consideration for the purchase of own shares paid by the company is recognised as a receivable due from the Trust within trade and other receivables.

1.22 Dividend distribution

Final dividends payable to the company's shareholders are recognised in the group's financial statements in the period in which the dividends are approved by the company's shareholders. Interim dividends payable are recognised in the period in which the dividends are paid.

1.23 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. The fair value of derivatives is determined by using a valuation model and is primarily based on observable market data. The method of recognising the resulting gain or loss from the re-measurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The group's policy is to designate on the date that the derivative contract is committed to. The group designates derivatives as:

- A hedge of the fair value of a liability ('fair value hedging instrument'), or
- A hedge of the cost of a highly probable forecast transaction or commitment ('cash flow hedging instrument').

To qualify for hedge accounting, the group is required, at inception, to document in advance the relationship between the item being hedged and the hedging instrument. The group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective in offsetting changes in fair values or cash flows of the hedged item on an on-going basis. This effectiveness testing is re-performed at each reporting date to ensure that the hedge remains highly effective.

The effectiveness of hedging instruments is assessed using the 'hypothetical derivative' method. This involves the comparison of the changes in fair value of the hedging instrument to a hypothetical derivative which has critical terms that match the hedged item.

Changes in the fair value of derivatives designated as highly effective fair value hedging instruments are recorded in the income statement within finance costs, together with the change in the fair value of the hedged item attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives designated as cash flow hedging instruments is recognised in equity within the hedging reserve. The change in the fair value relating to the ineffective portion is recognised immediately in the income statement within finance costs.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit, i.e. when the forecast interest payment that is hedged takes place.

When a cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

If a fair value hedging instrument no longer meets the effectiveness criteria, the adjustment to the carrying value of a hedged item, for which the effective interest method is used, is amortised to income over the period to maturity.

2 Key sources of estimation uncertainty

2.1 Loan loss provisioning

The group reviews its loans and receivables on an on-going basis to assess the level of impairment. Future cash flows are estimated on the basis of the contractual cash flows of the assets and historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. To the extent that the net present value of estimated future cash flows differs by +/-1%, the loan loss provision in the balance sheet would be an estimated £16.7 million lower or £16.7 million higher.

2.2 Goodwill impairment reviews

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £39.5 million. Details of the value in use calculation are provided in note 15 on page 59.

2.3 Retirement benefit obligation

The valuation of the retirement benefit obligation is dependent upon a series of assumptions, the key ones being mortality rates, investment returns, salary inflation and the rate of pension increases.

Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the group's own experience. The returns on fixed interest investments are set to market yields at the valuation date to ensure consistency with the asset valuation. The returns on UK and overseas equities are set by considering the long-term expected returns on these asset classes using a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations. The salary inflation and pension increase assumptions reflect the long-term expectations for both earnings and retail price inflation.

The principal assumptions used in the valuation of the retirement benefit obligation as at 31 December 2005 are set out in note 33 on page 81.

3 Financial risk management

3.1 Strategy in using financial instruments

The group's significant debt financing and customer lending exposes it to a variety of potential financial risks that include the effects of changes in interest rates, foreign currency exchange rates, liquidity and concentrations of both funding and customer credit. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by using other financial instruments, such as interest rate and currency swaps to fix interest rates.

The Board of directors has delegated, within limits, the policies for setting out the treasury risk management policies applied by the group to the Treasury & Risk Director. These policies are implemented directly by the treasury team on behalf of the group. The team has a risk management policy that sets out specific guidelines to manage interest rate, foreign exchange and credit risk and the use of financial instruments in relation to these.

The group's long-standing treasury strategy of using appropriate financial derivative instruments to limit its exposure to interest rate movements for borrowings remains in place. At 31 December 2005, approximately 84% of the group's total borrowings were protected against future interest rate volatility, for an average period of approximately five and a half years. This strategy has provided the group with a stable funding platform and greater certainty and control over future funding costs. It is not the policy of the group to trade in such instruments. The level of protection contracted for at any particular time would not exceed the group's exposure to actual or projected borrowings, except in the event of short-term timing differences. Further details of the derivative instruments held are set out in note 25 on pages 68 and 69.

The group maintains a mixture of long-term and short-term committed facilities that are designed to ensure that the group has sufficient available funds for current operations and planned growth. Details of the changes in the group's funding and headroom are set out in note 23 on pages 66 and 67 and note 25 on page 70.

The group is careful to avoid building a concentration of facilities with a relatively small group of partners. In order to avoid such a concentration the group has established funding in the bank, public bond and US private placement markets. Bank facilities currently include a syndicate of 26 banking partners.

3 Financial risk management continued

3.2 Credit risk and concentration

The group takes on exposure to credit risk in respect of loans and receivables, which is the risk that a customer will be unable to pay amounts in full when due. Loan loss provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

At the time a loan is approved, direct repayment customers are all in employment, have bank accounts and are able to repay their borrowings via a direct debit payment. A significant investment in customer screening processes has been made in recent years, including the transfer of almost all customer selection and underwriting activities from branches to central processing units. All applications for direct repayment credit are initially screened centrally using a score card, which has been developed over many years in conjunction with a leading credit referencing agency and ensures consistency of underwriting decisions. Applications which successfully pass this screening are then subject to a rigorous pre-lending process, including the verification of information provided by potential customers and an assessment of other financial commitments which the applicant may have, in order to confirm that the loan is both appropriate and affordable. Exposure to credit risk is managed in part with collateral obtained on certain products.

Should a customer experience a longer-term adverse change in their financial position, account management is transferred from the local branch to a specialist local collection unit ('LCU'). The LCU then establishes a revised repayment schedule more suited to the customer's changed circumstances.

Home collect customers continue to be served with small value, short-term advances (typically £300). Credit risk is managed through regular analysis of the ability of borrowers to meet repayments and credit limits are amended accordingly.

The risks from a concentration of credit risk are limited due to the relatively low value of each customer's debt and to the group's large and unrelated customer base.

3.3 Interest rate risk

The group has minimal risk to revenue from changes in market interest rates as almost all customer lending is at rates of interest which are fixed over the term of the contract. The group has a similar low risk to changes in market interest rates for current borrowing because 80-90% of total borrowings are protected against future interest rate volatility though the use of fixed rate borrowing (in the case of public bonds, private placement loan notes, debentures, finance leases, hire purchase and other loans) or floating rate bank borrowings protected by the interest rate swaps mentioned above. As a consequence, a hypothetical 1% (100 basis points) change in market interest rates at the balance sheet date would change the group's annual interest expense by around £2.0 million (2004: £2.0 million) with no noticeable impact at all on the group's revenue and receivables cash flows.

3.4 Foreign currency risk

At 31 December 2005 the group had a US $110 million unsecured loan note due for redemption at par in two parts in 2008 and 2011. A further US $75 million unsecured loan note was raised in February 2006, due for redemption at par in 2011 and 2013. The group has a policy that all foreign currency denominated borrowings are immediately swapped into Sterling at the commencement of the facility agreement in order that the group is not exposed to currency rate fluctuations. The group entered into foreign exchange contracts at the inception of these borrowings to eliminate this risk.

4 Segmental reporting

The segmental revenues and results for the year ended 31 December 2005 and segment assets and liabilities as at that date are as follows:

	Consumer Credit £'000	Debt Collection £'000	Corporate Services £'000	Eliminations £'000	Group £'000
Revenue					
External revenue	671,609	16,952	16,649	–	705,210
Inter-segment revenue	–	893	–	(893)	–
Total revenue	671,609	17,845	16,649	(893)	**705,210**

Inter-segment sales are entered into under normal arm's length commercial terms and conditions.

	Consumer Credit £'000	Debt Collection £'000	Corporate Services £'000	Eliminations £'000	Group £'000
Result					
Segment result	117,936	2,784	4,723	–	125,443
Central expenses					(10,309)
Profit before taxation					115,134
Taxation					(34,645)
Profit for the year attributable to equity shareholders					**80,489**

	Consumer Credit £'000	Debt Collection £'000	Corporate Services £'000	Central £'000	Group £'000
Segment assets and liabilities					
Segment assets	1,826,579	86,025	76,545	1,575,973	3,565,122
Unallocated					21,017
Eliminations					(1,660,221)
Total assets					**1,925,918**
Segment liabilities	1,587,761	89,774	65,413	1,461,380	3,204,328
Unallocated					20,873
Eliminations					(1,660,221)
Total liabilities					**1,564,980**
Other segment items					
Capital expenditure	19,897	82	186	38	20,203
Depreciation	6,136	146	283	140	6,705
Amortisation – other intangible assets	2,500	27	54	14	2,595
Loan loss provisioning charge	209,086	–	353	–	209,439

The loan loss provisioning charge includes the 'gross-up adjustment' of £33.3 million.

Capital expenditure comprises additions to property, plant and equipment (note 17) and intangible assets (note 16).

4 Segmental reporting continued

The segmental revenues and results for the year ended 31 December 2004 and segment assets and liabilities as at that date are as follows:

	Consumer Credit £'000	Debt Collection £'000	Corporate Services £'000	Eliminations £'000	Group £'000
Revenue					
External revenue	660,510	14,734	22,013	–	697,257
Inter-segment revenue	–	923	–	(923)	–
Total revenue	660,510	15,657	22,013	(923)	**697,257**
Result					
Segmental result	103,503	2,690	8,215	–	114,408
Central expenses					(12,140)
Profit before taxation					102,268
Taxation					(30,921)
Profit for the year attributable to equity shareholders					**71,347**

	Consumer Credit £'000	Debt Collection £'000	Corporate Services £'000	Central £'000	Group £'000
Segment assets and liabilities					
Segment assets	1,716,289	54,986	129,159	1,548,950	3,449,384
Unallocated					46,880
Eliminations					(1,755,298)
Total assets					**1,740,966**
Segment liabilities	1,509,131	61,153	109,660	1,440,877	3,120,821
Unallocated					39,675
Eliminations					(1,755,298)
Total liabilities					**1,405,198**
Other segment items					
Capital expenditure	15,762	184	551	2,153	18,650
Depreciation	6,536	248	335	162	7,281
Amortisation – other intangible assets	2,334	21	163	8	2,526
Loan loss provisioning charge	169,450	–	65	–	169,515

The loan loss provisioning charge includes the 'gross-up adjustment' of £18.8 million.

5 Disposal of Cattles Commercial

Cattles Commercial Finance Limited and its subsidiary, Cattles Commercial Leasing Limited ('Cattles Commercial') were sold on 14 January 2005. These businesses do not constitute discontinued operations as defined in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' by virtue of the fact that they did not represent a major line of the group's operations.

Cash consideration of £70 million was received on the disposal of Cattles Commercial, of which £54.4 million related to the settlement of the companies' intra-group indebtedness and £15.6 million related to the share capital. A profit of £0.5 million, included within administrative expenses, arose on the sale of the share capital as follows:

	£'000	£'000
Consideration received		15,578
Less: Provision for contingent consideration repayable		(2,400)
		13,178
Net assets disposed of:		
Intangible assets	602	
Property, plant and equipment	189	
Deferred tax asset	2,419	
Loans and receivables	66,262	
Other assets	864	
Bank overdrafts	(1,261)	
Intra-group borrowings	(54,421)	
Other liabilities	(2,087)	
		(12,567)
Costs of disposal		(141)
Profit on disposal of business		470

6 Holding company income statement

The consolidated profit includes £49.1 million (2004: £47.8 million), which has been dealt with in the financial statements of the company. The company has taken advantage of section 230 of the Companies Act 1985 and has not included its own income statement in these financial statements.

7 Revenue

Group	2005 £'000	2004 £'000
Interest income	**519,187**	500,905
Insurance and brokerage income	**93,187**	87,075
Sale of goods	**51,388**	66,957
Other income	**41,448**	42,320
	705,210	697,257

Interest income includes amounts totalling £33.3 million (2004: £18.8 million) which the group must continue to accrue in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' in respect of impaired loans. This additional income, which cannot be collected from the customer due to the interest being fixed at the outset or interest having been suspended on the customer's account, referred to as the 'gross-up adjustment' to income, is fully provided against as part of the loan loss provisioning charge (refer to note 9).

Interest income includes £nil (2004: £1.9 million) arising from financial assets at fair value through profit or loss.

8 Finance costs

Group	2005 £'000	2004 £'000
Interest expense	**85,424**	75,660
Net exchange gain on foreign currency borrowings	**–**	(4,055)
Amortisation of transitional hedging reserve	**–**	3,520
Fair value movements on derivative instruments:		
– Interest rate swaps	**1,562**	–
– Cross-currency swaps	**(872)**	–
Other	**2,217**	2,374
	88,331	77,499

The charge for the amortisation of the transitional hedging reserve in 2005 is included within the fair value movements on interest rate swaps in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

In addition to the above finance costs, in the absence of hedge accounting in 2004, a charge for adverse fair value movements on derivative instruments of £3.3 million for the year ended 31 December 2004 was included in administrative expenses.

9 Other cost of sales

Group	2005 £'000	2004 £'000
Loan loss provisioning charge	**209,439**	169,515
Cost of vehicles sold	**34,038**	46,301
Other	**46,177**	75,330
	289,654	291,146

The loan loss provisioning charge for the year ended 31 December 2005 includes the 'gross-up adjustment' of £33.3 million (2004: £18.8 million).

10 Services provided by the group's external auditors

During the year the group obtained the following services from the external auditors, all of which were provided in the United Kingdom:	2005 £'000	2004 £'000
Audit services		
– Statutory audit (Company – 2005: £38,000; 2004: £35,600)	**366**	336
– Audit-related regulatory reporting	**85**	–
Further assurance services	**363**	238
Tax services		
– Compliance services	**114**	154
– Other advisory services	**352**	740
Other services	**241**	19
	1,521	1,487

In addition to the above services, the group's external auditors acted as auditor to the Cattles Staff Pension Fund Limited pension scheme. The appointment of auditors to the group's pension scheme, and the fees paid in respect of such of £8,035 (2004: £5,900), are agreed by the trustees of the scheme, acting independently from the management of the group.

In appointing the external auditors to carry out non-audit related services, and in setting their fees for such work, the directors have due regard to the group's policy in respect of non-audit related services as set out in the Report of the Audit Committee on page 25 and the benefits, financial and non-financial, expected to be obtained. In the opinion of the directors, these services should benefit the group in the future.

Further assurance services comprise work in relation to the transition to IFRS. Other services primarily relate to corporate finance work, and communications advice and training workshops in relation to IFRS.

The charges for audit and non-audit services are included within administrative expenses.

11 Taxation

Analysis of group charge in the year	2005 £'000	2004 £'000
Current tax:		
UK corporation tax at 30% (2004: 30%)	**(564)**	37,812
Adjustments in respect of previous years	**6,656**	3,839
	6,092	41,651
Deferred tax:		
Origination and reversal of timing differences	**35,273**	(7,256)
Adjustments in respect of previous years	**(6,720)**	(3,474)
Total tax charge in the income statement	**34,645**	30,921
Deferred tax on items credited to equity		
Relating to cash flow hedges	**(1,282)**	–
Relating to retirement benefit obligation	**(2,060)**	(1,082)
Total	**(3,342)**	(1,082)

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2004: 30%). The tax charge for the year is more than the tax on profit on ordinary activities at the standard rate for the reasons set out in the following reconciliation:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	**115,134**	102,268
Tax on profit on ordinary activities at the standard rate	**34,540**	30,680
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	**175**	(176)
Isle of Man tax charged at lower rate than UK standard rate	**(6)**	52
Adjustments to tax charge in respect of previous years	**(64)**	365
Total tax charge for the year	**34,645**	30,921

12 Dividends

Group and Company	2005 £'000	2004 £'000
Amounts recognised as distributed to equity holders in the year:		
Interim dividend for the year ended		
31 December 2005 of 5.05p (2004: 4.55p)	**16,559**	14,873
Final dividend for the year ended		
31 December 2004 of 9.45p (2003: 8.15p)	**30,942**	26,608
	47,501	41,481

In addition, the directors are proposing a final dividend for the year ended 31 December 2005 of 10.65p per share. This dividend will be paid on 16 May 2006 to shareholders who are on the register at 31 March 2006. The dividend will be recognised as an appropriation of the group's and company's profits in the six months ended 30 June 2006 and will absorb an estimated £35.0 million of shareholders' funds.

Dividends of £200,000 (2004: £180,000), in respect of the total dividend for 2005 of 15.70p per share, have been waived by the trustee of the Employee Benefit Trust in respect of those shares held under the Long-Term Incentive Plan and Restricted Share Scheme.

13 Employee benefits

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Wages and salaries	**100,295**	107,825	**4,090**	4,848
Social security costs	**10,419**	10,288	**738**	756
Pension costs – defined benefit pension scheme (note 33)	**2,158**	2,689	**2,158**	2,689
Pension costs – defined contribution pension schemes (note 33)	**960**	1,143	**155**	130
Share-based payments	**2,561**	1,665	**874**	676
Other benefits	**14,326**	13,971	**349**	314
Total employee benefits	**130,719**	137,581	**8,364**	9,413

Total employee benefits includes a cost for termination benefits of £1.5 million (2004: £2.4 million) and £0.1 million (2004: £0.2 million) for the year ended 31 December 2005 in relation to the group and company respectively.

Employee benefits are charged to the income statement through administrative expenses, except those in relation to Home Collect agents, which are charged through other cost of sales.

The average monthly number of persons employed by the group during the year was as follows:	2005 Number	2004 Number
Consumer Credit	**4,454**	4,552
Debt Collection	**228**	229
Corporate Services	**134**	145
Central Support Services	**50**	51
Total	**4,866**	4,977

Key management compensation

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Short-term employee benefits	**3,490**	3,060	**2,700**	2,354
Post-employment benefits	**394**	369	**301**	271
Share-based payments	**939**	790	**796**	656
Total	**4,823**	4,219	**3,797**	3,281

Key management are members of the group's Restricted Share Scheme and Long-Term Incentive Plan and 1,432,953 shares were notionally held in respect of them at 31 December 2005 (2004: 1,289,065). During the year 546,408 shares (2004: 446,677 shares) with an estimated fair value of £1.3 million (2004: £1.3 million) were awarded to key management under these schemes.

In addition, certain members of key management have interests in the group's executive share option schemes. At 31 December 2005 16,000 options previously granted to key management were outstanding (2004: 38,000) of which 16,000 (2004: 38,000) were exercisable. During the year 22,000 options (2004: nil) were exercised by key management and the weighted average share price during this period was 320p.

The key management compensation figures given above include amounts relating to the company's executive and non-executive directors. A detailed analysis of all directors' emoluments, including salaries, benefits in kind, performance related bonuses, share options, long-term incentives and pension arrangements, is provided in the section entitled Audited Information of the Report of the Board on Directors' Remuneration on pages 32 to 35 and forms part of these financial statements.

14 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding own shares held (note 31) which are treated, for this purpose, as being cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2005			2004		
	Earnings £'000	Weighted average number of shares '000	Earnings per share pence	Earnings £'000	Weighted average number of shares '000	Earnings per share pence
Shares in issue during the year		328,783			328,145	
Own shares held		(1,126)			(1,348)	
Basic EPS	80,489	327,657	24.56	71,347	326,797	21.83
Effect of dilutive securities:						
Options	–	575	(0.04)	–	550	(0.03)
Diluted EPS	80,489	328,232	24.52	71,347	327,347	21.80

15 Goodwill

	Group £'000
Cost	
At 1 January 2004	48,233
Acquired through business combination	18
Adjustment	(1,645)
At 1 January 2005	46,606
Acquired through business combination	18
Adjustment (note 18)	(498)
At 31 December 2005	**46,126**
Aggregate amortisation and impairment	
At 1 January 2004 and 2005	6,606
At 31 December 2005	**6,606**
Net book amount	
At 31 December 2005	**39,520**
At 31 December 2004	40,000
At 1 January 2004	41,627

Goodwill relates entirely to the group's Consumer Credit division and the impairment review performed as at 31 December 2005 demonstrates significant headroom.

The recoverable amount of goodwill is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates, and expected changes to loan loss provisioning rates and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Consumer Credit division. Changes in loan loss provisioning rates and direct costs are based on historic experience and expectations of short-term future changes in the market. The group prepares a cash flow forecast derived from the approved budget for the following year and extrapolates this in line with historic long-term UK GDP growth. The cash flows are discounted using a pre-tax discount rate of 8.3%.

The company has no goodwill.

16 Other intangible assets

Other intangible assets solely comprise computer software.

	Group			Company		
	Internally generated assets £'000	Acquired assets £'000	Total £'000	Internally generated assets £'000	Acquired assets £'000	Total £'000
Cost						
At 1 January 2004	424	14,276	14,700	–	99	99
Additions	409	8,442	8,851	–	7	7
Disposals	–	(1,372)	(1,372)	–	(19)	(19)
At 1 January 2005	833	21,346	22,179	–	87	87
Additions	1,204	13,673	14,877	–	25	25
Disposal of business	–	(776)	(776)	–	–	–
At 31 December 2005	**2,037**	**34,243**	**36,280**	**–**	**112**	**112**
Aggregate amortisation						
At 1 January 2004	–	10,156	10,156	–	84	84
Charge for the year	–	2,526	2,526	–	8	8
Disposals	–	(1,232)	(1,232)	–	(19)	(19)
At 1 January 2005	–	11,450	11,450	–	73	73
Charge for the year	–	2,595	2,595	–	13	13
Disposal of business	–	(174)	(174)	–	–	–
At 31 December 2005	**–**	**13,871**	**13,871**	**–**	**86**	**86**
Net book amount						
At 31 December 2005	**2,037**	**20,372**	**22,409**	**–**	**26**	**26**
At 31 December 2004	833	9,896	10,729	–	14	14
At 1 January 2004	424	4,120	4,544	–	15	15

The internally-generated computer software relates to the cost of internal software developers working on Project Phoenix, the development of the Consumer Credit division's next generation of IT and customer relationship management systems, which will be implemented on a phased basis during 2006. The cost of acquired software assets also includes £12.2 million (2004: £5.3 million) in relation to external Project Phoenix software expenditure.

The net book values of computer software include amounts of £2.6 million (2004: £nil) for the group in respect of assets held under hire purchase contracts. All amortisation charges for the year have been charged to the income statement through administrative expenses.

17 Property, plant and equipment

Group	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures and equipment £'000	Motor vehicles £'000	Assets held for rental £'000	Total £'000
Cost						
At 1 January 2004	15,137	8,221	33,005	7,522	4,546	68,431
Additions	1,991	1,685	4,048	1,949	126	9,799
Disposals	(1,797)	(701)	(1,471)	(4,718)	(2,036)	(10,723)
At 1 January 2005	15,331	9,205	35,582	4,753	2,636	67,507
Additions	16	1,554	3,560	190	6	5,326
Disposal of business	–	(78)	(158)	(144)	–	(380)
Other disposals	(2,203)	(85)	(2,227)	(2,257)	(2,642)	(9,414)
At 31 December 2005	**13,144**	**10,596**	**36,757**	**2,542**	**–**	**63,039**
Accumulated depreciation and impairment						
At 1 January 2004	375	4,618	23,334	3,459	2,253	34,039
Charge for the year	21	1,107	4,165	1,386	602	7,281
Disposals	(66)	(309)	(1,096)	(3,604)	(1,199)	(6,274)
At 1 January 2005	330	5,416	26,403	1,241	1,656	35,046
Charge for the year	58	1,272	4,245	933	197	6,705
Disposal of business	–	(24)	(113)	(53)	–	(190)
Other disposals	(87)	(66)	(1,847)	(1,594)	(1,853)	(5,447)
At 31 December 2005	**301**	**6,598**	**28,688**	**527**	**–**	**36,114**
Net book amount						
At 31 December 2005	**12,843**	**3,998**	**8,069**	**2,015**	**–**	**26,925**
At 31 December 2004	15,001	3,789	9,179	3,512	980	32,461
At 1 January 2004	14,762	3,603	9,671	4,063	2,293	34,392

Depreciation and profit/loss on disposal have been charged to the income statement through administrative expenses, except for the amounts relating to assets held for rental which has been charged through cost of sales.

The net book values of fixtures and equipment and motor vehicles include amounts of £2.7 million (2004: £3.1 million) and £1.5 million (2004: £3.2 million) respectively for the group in respect of assets held under finance leases and hire purchase contracts. Included within the depreciation charge shown above was £2.5 million (2004: £2.2 million) in respect of assets held under finance leases and hire purchase contracts.

17 Property, plant and equipment continued

Company	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2004	360	241	904	387	1,892
Additions	–	–	55	191	246
Transfer from group company	–	–	–	59	59
Disposals	(360)	–	(232)	(138)	(730)
At 1 January 2005	–	241	727	499	1,467
Additions	–	–	13	–	13
Transfer from group company	–	–	–	(31)	(31)
Disposals	–	–	(34)	(121)	(155)
At 31 December 2005	**–**	**241**	**706**	**347**	**1,294**
Accumulated depreciation and impairment					
At 1 January 2004	23	241	539	69	872
Charge for the year	2	–	69	92	163
Transfer from group company	–	–	–	3	3
Disposals	(25)	–	(94)	(63)	(182)
At 1 January 2005	–	241	514	101	856
Charge for the year	–	–	54	86	140
Transfer from group company	–	–	–	(7)	(7)
Disposals	–	–	(8)	(61)	(69)
At 31 December 2005	**–**	**241**	**560**	**119**	**920**
Net book amount At 31 December 2005	**–**	**–**	**146**	**228**	**374**
At 31 December 2004	–	–	213	398	611
At 1 January 2004	337	–	365	318	1,020

Depreciation has been charged to the company's income statement through administrative expenses.

The net book value of fixtures and equipment includes an amount of £0.2 million (2004: £0.4 million) for the company in respect of assets held under hire purchase contracts. Included within the depreciation charge shown above was £0.1 million (2004: £0.1 million) in respect of assets held under hire purchase contracts.

18 Investments in subsidiary undertakings

	Company	
	2005 £'000	2004 £'000
Cost		
At 1 January	**186,863**	187,501
Additions	**4,906**	1,007
Disposals	**(2,775)**	–
Adjustment	**(492)**	(1,645)
At 31 December	**188,502**	186,863
Provision for diminution in value	**(10,797)**	(10,797)
Net book amount at 31 December	**177,705**	176,066

Of the £4.9 million (2004: £1.0 million) in respect of additions, £1.7 million (2004: £1.0 million) relates to share-based payments in respect of employees of the subsidiary undertakings.

On 14 January 2005 the company sold its investment in Cattles Commercial Finance Limited.

The adjustment primarily relates to the reduction in the amount of deferred consideration payable in respect of the Hathgap acquisition (through which Welcome Car Finance was established) made in 2003.

All principal subsidiaries are wholly owned by Cattles plc. The principal operating subsidiary undertakings are listed on page 109.

19 Loans and receivables

Loans and receivables, analysed by segment, are as follows:

	Group	
	2005 £'000	2004 £'000
Consumer Credit	**1,859,507**	1,581,566
Debt Collection	**44,385**	28,897
Corporate Services	**67,218**	123,805
Central	**1,920**	1,935
	1,973,030	1,736,203
Less: Allowance for loan loss provision	**(299,318)**	(251,971)
	1,673,712	1,484,232
Comprising:		
Non-current assets	**984,499**	825,858
Current assets	**689,213**	658,374
	1,673,712	1,484,232
Gross loans and receivables, analysed by product, are as follows:		
Hire purchase contracts	**473,508**	427,902
Other instalment credit agreements	**1,387,919**	1,160,572
Default debt	**44,385**	28,897
Finance leases	**–**	61,624
Factoring	**67,218**	57,208
	1,973,030	1,736,203

Company loans and receivables, as shown in the balance sheet on page 39, of £1,558.4 million (2004: £1,530.5 million) comprise amounts due from subsidiary companies, all of which is repayable on demand.

19 Loans and receivables continued

Significant terms and conditions

The significant terms of the group's loans and receivables may be summarised as follows:

The Consumer Credit division has approximately 358,000 (2004: 337,000) direct repayment customers. Average advances are typically £1,500 (2004: £1,400) for small unsecured personal loans, £4,800 (2004: £4,800) for HP loans for the purchase of cars, £7,700 (2004: £6,700) for standard secured loans and £12,300 (2004: £12,200) for superior secured loans. Interest charged on hire purchase loans is fixed at the outset whereas interest on unsecured and secured loans is added monthly.

The group continues to disengage from those sectors of the home collected market regarded as being uneconomic. Consequently the number of home collected customers has reduced to 308,000 (2004: 337,000). Shopacheck continues to offer a home collected product to customers who require small value short-term advances (typically £300). Interest on these loans is fixed at the outset.

Lewis, the group's debt recovery specialist continues to purchase default debt portfolios for which it has developed sophisticated pricing models and processes to assess the economic value of such portfolios. The amount invested in the purchase of such portfolios in the year was £32 million (2004: £21 million).

The Corporate Division comprises Cattles Invoice Finance ('CIF') following the sale of Cattles Commercial in January 2005. Invoices factored by CIF are formally assigned to the company and are typically repaid within 60 days.

Details of the weighted average effective interest rate for the group's loans and receivables are in note 25.

Maturity profile of loans and receivables

The contractual maturity of the group's loans and receivables is set out in the table below:

Group	2005			2004		
	Net investment in finance lease and hire purchase receivables £'000	Other loans and receivables £'000	Total £'000	Net investment in finance lease and hire purchase receivables £'000	Other loans and receivables £'000	Total £'000
Within one year	**160,277**	**528,936**	**689,213**	175,233	483,141	658,374
One to two years	**105,298**	**206,990**	**312,288**	113,649	182,577	296,226
Two to three years	**73,450**	**126,537**	**199,987**	75,013	97,187	172,200
Three to four years	**31,048**	**79,587**	**110,635**	31,753	64,655	96,408
Four to five years	**7,141**	**63,161**	**70,302**	3,616	49,771	53,387
Over five years	**12,505**	**278,782**	**291,287**	3,317	204,320	207,637
	389,719	**1,283,993**	**1,673,712**	402,581	1,081,651	1,484,232

The group provides hire purchase facilities for customers to purchase motor vehicles from Welcome Car Finance and third party dealers. Prior to the sale of Cattles Commercial, the group also provided hire purchase and finance lease facilities for small and medium sized businesses to purchase plant and equipment.

The group's gross investment in finance leases and hire purchase contracts is set out in the table below:

	Group	
	2005 £'000	2004 £'000
Gross investment:		
Within one year	**255,584**	282,847
One to five years	**345,936**	362,628
Over five years	**19,942**	5,645
	621,462	651,120
Unearned future finance income	**(147,954)**	(161,594)
Allowance for loan loss provision	**(83,789)**	(86,945)
Present value of future lease payments	**389,719**	402,581

Under the terms of the finance lease agreements and the hire purchase contracts, no unguaranteed residual values are accruing to the group and no contingent rents are payable.

20 Trade and other receivables

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Trade receivables	**2,743**	8,988	**77**	65
Loan to Employee Benefit Trust	**–**	–	**4,295**	3,910
Other receivables	**23,086**	9,402	**379**	268
Prepayments and accrued income	**9,085**	6,750	**1,799**	1,223
	34,914	25,140	**6,550**	5,466
Comprising:				
Non-current assets	**96**	–	**4,295**	3,910
Current assets	**34,818**	25,140	**2,255**	1,556
	34,914	25,140	**6,550**	5,466

21 Deferred tax

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 30% (2004: 30%).

Deferred tax assets have been recognised in respect of all tax losses and other temporary timing differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

All of the deferred tax liabilities were available for offset against deferred tax assets and hence the deferred tax asset at each balance sheet date is shown net.

The movements in the deferred tax account during the year are shown below:

Group	At 31 December 2004 £'000	Recognised in income £'000	Recognised in equity £'000	Disposal of business £'000	At 31 December 2005 £'000
Accelerated tax depreciation	2,699	(1,114)	–	(1,862)	**(277)**
Other timing differences	53,438	(27,439)	3,342	(557)	**28,784**
	56,137	(28,553)	3,342	(2,419)	**28,507**
Company					
Accelerated tax depreciation	14	32	–	–	**46**
Other timing differences	10,219	2,115	3,342	–	**15,676**
	10,233	2,147	3,342	–	**15,722**

Other timing differences principally relate to the timing differences arising from changes in accounting policies in certain areas, such as loans and receivables, hedging instruments and the retirement benefit obligation, following the transition to IFRS.

22 Cash and cash equivalents

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Cash at bank and in hand	**16,512**	13,872	**2,374**	3,684
Fixed interest bank deposits	**79,623**	74,986	**–**	–
	96,135	88,858	**2,374**	3,684

All bank deposits have a maturity of one month.

At 31 December 2005, the bank deposits held by Progressive Insurance Company Limited amounted to £79.6 million (2004: £75.0 million). The Regulators and the Trust Deed of this company require £nil (2004: £44.5 million) of these funds to be retained within the company.

23 Borrowings

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Current				
Unsecured bank borrowings and overdrafts	**216,599**	8,462	**216,332**	8,459
Unsecured debenture loans and other borrowings	**26,739**	29,139	**26,053**	28,494
Obligations under finance leases and hire purchase contracts	**2,365**	3,300	**167**	172
Unsecured intra-group borrowings, repayable on demand	**–**	–	**29,804**	156,821
	245,703	40,901	**272,356**	193,946
Non-current				
Unsecured bank borrowings	**500,286**	580,174	**499,574**	580,174
Unsecured debenture loans and other borrowings	**607,499**	603,163	**604,283**	598,548
Obligations under finance leases and hire purchase contracts	**3,683**	2,400	**53**	228
	1,111,468	1,185,737	**1,103,910**	1,178,950
Total	**1,357,171**	1,226,638	**1,376,266**	1,372,896

At 31 December 2005 unsecured debenture loans and other borrowings comprised:

(a) A Eurosterling Bond with a carrying amount of £124.9 million (2004: £124.8 million). The Bond has a par value of £125 million but was issued at a 1.14% discount, realising net proceeds of £123.6 million. The Bond has a fixed rate of interest of 8.625% and is redeemable at par in December 2007. The carrying amount reflects the unamortised discount, unamortised transaction costs and accrued interest of £0.3 million, £0.5 million and £0.7 million respectively.

(b) A Sterling Bond with a carrying amount of £370.6 million (2004: £372.8 million). The Bond has a par value of £350 million but was issued at a 0.227% discount, realising net proceeds of £347.6 million. The Bond has a fixed rate of interest of 6.875% and is redeemable at par in January 2014. The carrying amount reflects the unamortised discount, unamortised transaction costs and accrued interest of £0.6 million, £1.9 million and £23.1 million respectively.

(c) A US Private Placing with a carrying amount of £132.6 million (2004: £127.4 million). The Placing raised $40 million 7.15% unsecured notes redeemable at par in December 2008, $70 million 7.53% unsecured notes redeemable at par in December 2011, £30 million 7.64% unsecured notes redeemable at par in December 2011 and £40 million 7.80% unsecured notes redeemable at par in December 2016. The carrying amount reflects hedging adjustments, unamortised transaction costs and accrued interest of £12.6 million, £1.0 million and £0.7 million respectively.

(d) A fixed rate 6.39% loan with a carrying amount of £4.6 million (2004: £5.3 million). The loan is repayable in quarterly instalments by September 2011.

(e) £1.5 million (2004: £2.0 million) 4% unsecured loan notes are redeemable at par during 2006.

23 Borrowings continued

Maturity profile of borrowings

The contractual maturity of borrowings held or issued by the group and company is set out in the table below:

	2005			2004		
Group	Unsecured bank, debenture loans and other borrowings £'000	Obligations under finance lease and hire purchase contracts £'000	Total £'000	Unsecured bank, debenture loans and other borrowings £'000	Obligations under finance lease and hire purchase contracts £'000	Total £'000
Within one year	243,338	2,365	245,703	37,601	3,300	40,901
One to two years	126,193	2,199	128,392	209,695	1,703	211,398
Two to three years	72,418	570	72,988	124,733	556	125,289
Three to four years	387,162	466	387,628	79,363	141	79,504
Four to five years	2,442	352	2,794	289,490	–	289,490
Over five years	519,570	96	519,666	480,056	–	480,056
	1,351,123	6,048	1,357,171	1,220,938	5,700	1,226,638
Company						
Within one year	272,189	167	272,356	193,774	172	193,946
One to two years	125,461	29	125,490	209,000	156	209,156
Two to three years	71,639	24	71,663	123,994	43	124,037
Three to four years	386,331	–	386,331	78,579	29	78,608
Four to five years	1,557	–	1,557	288,658	–	288,658
Over five years	518,869	–	518,869	478,491	–	478,491
	1,376,046	220	1,376,266	1,372,496	400	1,372,896

The group and company's gross obligations under finance lease and hire purchase contracts are as follows:

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Gross lease payments:				
Not later than one year	2,549	3,576	170	193
Later than one year but not more than five	3,852	2,525	54	233
Later than five years	96	–	–	–
	6,497	6,101	224	426
Future finance charges	(449)	(401)	(4)	(26)
Present value of minimum lease payments	6,048	5,700	220	400

The above figures relate to motor vehicles acquired under hire purchase contracts and computer hardware and software acquired under finance lease agreements.

24 Trade and other payables

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Current				
Trade payables	**85,534**	23,742	**586**	237
Other taxes and social security	**4,699**	5,144	**207**	265
Other payables	**3,131**	5,196	**1**	261
Unearned reinsurance premiums (note 26)	**–**	6,239	**–**	–
Accruals	**18,242**	20,172	**2,455**	3,349
	111,606	60,493	**3,249**	4,112
Non-current				
Other taxes and social security	**158**	199	**158**	199
Deferred purchase consideration	**–**	594	**–**	594
Other payables	**3,144**	3,433	**5,708**	2,791
Unearned reinsurance premiums (note 26)	**–**	4,965	**–**	–
Accruals	**12**	23	**12**	23
	3,314	9,214	**5,878**	3,607

All non-current financial liabilities included above have a maturity of one to two years.

25 Financial instruments

Details of management's policies for controlling the risks associated with financial instruments, including policies on matters such as hedging of risk exposures and avoiding undue concentrations of credit risk are given in the section on Financial Risk Management on pages 51 and 52.

Derivative financial instruments

The group adopted IAS 39 'Financial Instruments: Recognition and Measurement' from 1 January 2004. However, the group only achieved hedge accounting from 1 January 2005 when the hedge documentation requirements of IAS 39 were in place.

Interest rate risk

At 31 December 2005, the group held interest rate swaps covering unsecured floating rate bank borrowings of £412 million, effectively fixing the associated cost of interest at rates between 4.01% and 6.43%. In addition, the group held caps and collars covering a further £70 million in total, tranches of which are allowed to float at rates between floors of 4.25% and 5.00% and caps of between 4.75% and 6.25%.

The group's caps and collars are not designated as hedging instruments, however all of the group's interest rate swaps, were designated as cash flow hedges from 1 January 2005. The gains and losses deferred in equity will be recorded in the income statement during the next 10 years (being the lives of the instruments).

In anticipation of raising additional funds around the year end, the group entered into a pre-hedge arrangement during the first half of 2005. This enabled the group to lock into the interest rates on offer at that time, avoiding the risks of rate movements up to the date the funding would be agreed.

Funding, by way of a US Private Placing, was subsequently negotiated in December 2005 with the funds being made available on 1 February 2006. To the extent that it is effective, the value of the pre-hedge can be deferred in the balance sheet and recorded in the income statement over the life of the funding.

Foreign currency risk

All foreign currency denominated borrowings are immediately swapped into Sterling at the commencement of the facility agreement and, hence, the group is not exposed to currency rate fluctuations. The group's cross-currency swaps were designated as fair value hedges to hedge against interest and foreign currency risk from 1 January 2005. As a consequence, the change in the fair values of these swaps are recorded in the income statement within finance costs, together with the change in the fair value of the US Dollar denominated Private Placing which the swaps have hedged.

25 Financial instruments continued

The following table shows the fair value of derivative financial instruments, as well as the notional amount of borrowing being hedged by these instruments:

Group and Company	2005 Notional amount £'000	2005 Assets £'000	2005 Liabilities £'000	2004 Notional amount £'000	2004 Assets £'000	2004 Liabilities £'000
Interest rate swaps	**412,000**	**274**	**6,689**	375,000	796	4,009
Interest rate caps and floors	**70,000**	**30**	**67**	110,000	113	121
Cross-currency swaps	**75,549**	**–**	**13,703**	75,549	–	19,446
	557,549	**304**	**20,459**	560,549	909	23,576
Comprising:						
Current		**–**	**263**		14	1,053
Non-current		**304**	**20,196**		895	22,523
		304	**20,459**		909	23,576

The group holds no other derivatives and has identified no embedded derivatives which require separate accounting for in accordance with IAS 39 'Financial Instruments: Recognition & Measurement'.

Fair values of non-derivative financial instruments

The following table summarises the carrying values and fair values of those financial assets and liabilities not recognised in the balance sheet of the group and company at fair value:

	2005 Carrying value £'000	2005 Fair value £'000	2004 Carrying value £'000	2004 Fair value £'000
Group				
Loans and receivables	**1,673,712**	**1,673,712**	1,484,232	1,481,832
Bank borrowings	**(709,628)**	**(713,872)**	(583,602)	(587,226)
Debenture loans and other borrowings	**(634,950)**	**(661,285)**	(631,693)	(624,107)
Obligations under finance leases and hire purchase contracts	**(6,048)**	**(6,048)**	(5,700)	(5,700)
Company				
Intra-group loans and receivables	**1,558,429**	**1,558,429**	1,530,497	1,530,497
Bank borrowings	**(709,628)**	**(713,872)**	(583,602)	(586,685)
Debenture loans and other borrowings	**(630,336)**	**(656,652)**	(626,433)	(618,823)
Obligations under finance leases and hire purchase contracts	**(220)**	**(220)**	(400)	(400)
Intra-group borrowings	**(29,804)**	**(29,804)**	(156,821)	(156,821)

The fair value of loans and receivables is shown as their carrying value, except for the loans and receivables of Cattles Commercial as at 31 December 2004 whose fair value equates to the value at which the receivables were sold in January 2005 after adjusting for the deferred consideration provision. The carrying value of loans and receivables and, hence, the fair value represents the discounted amount of estimated future cash flows expected to be received. The discount rate used is the original EIR, which is consistent with the rates on new loans being written.

The fair values of bank borrowings, debenture loans and other borrowings are calculated by discounting expected future cash flows at appropriate market interest rates prevailing at each balance sheet date and at estimated future exchange rates.

The fair value of obligations under finance leases and hire purchase contracts equates to their carrying values as the interest rates being paid on these obligations are substantially the same as those prevailing in the current open market.

The fair values of intra-group loans and receivables and borrowings equates to their carrying values as the interest rates being earned and charged on these items are based upon prevailing market rates.

The carrying values of trade and other receivables, cash and cash equivalents, bank overdrafts and trade and other payables approximate to fair value due to their relatively short maturity and are not shown in the above table.

25 Financial instruments continued

Effective interest rates

The following profile of the group's financial assets and liabilities is stated after taking into account the effect of the interest rate swaps discussed above.

	Weighted average effective interest rates at year end	
	2005 %	2004 %
Loans and receivables*	**45.5**	53.8
Cash equivalents*	**4.6**	4.8
Bank borrowings	**5.7**	5.5
Debenture loans and other borrowings*	**7.4**	7.4
Obligations under finance leases and hire purchase contracts*	**6.4**	6.2

*These assets and liabilities bear interest at fixed rates

Interest on floating rate bank borrowings is based on a fixed margin over floating rate LIBOR, as pre-determined by each facility agreement.

The weighted average effective interest rate on the group's cash and bank overdraft are based on the prevailing UK base rate less 0.5% and plus 1% respectively.

The weighted average effective interest rates in relation to the company's financial assets and liabilities are the same of those of the group, except for loans and receivables which was 7.0% at 31 December 2005 (2004: 7.3%).

Bank facilities

The committed bank facilities available to the group, all of which are at floating interest rates, at 31 December 2005 were:

Type	Maturity period	Established	Total facility £'000	Undrawn facility £'000
Overdraft	Renewable annually		13,350	6,805
Syndicate	July 2006	2001	100,000	48,000
Syndicate	July 2006	2003	154,000	–
Syndicate	July 2008	2003	139,000	91,000
Syndicate	July 2009	2004	500,000	113,000
Bilateral	July 2011	2004	75,000	15,000
Loan	April 2012	2005	9,408	–
			990,758	273,805

Utilisation from each syndicated facility is by money market renewable term loans or acceptances which are rolled over in one year or less. The company uses a number of banks and syndicates to provide finance to avoid an unnecessary concentration of borrowing.

Principal covenants

The group must comply with principal lending covenants in respect of the ratio of total borrowings to tangible net worth and the ratio of profit before interest and tax to net interest payable. At 31 December 2005 neither of these covenants had been breached.

26 Insurance contract assets and liabilities

The Consumer Credit Division offers payment protection and other insurance products such as health, life and mechanical breakdown insurance to its customers.

All income relating to payment protection insurance is regarded as being part of the group's economic return on the loans. It is a constituent part of the effective interest rate and included within interest income. Therefore, payment protection insurance is not treated as an insurance contract in the group's financial statements.

All insurance contracts were fully underwritten during 2005 by third party insurers, with the exception of mechanical breakdown insurance which was fully underwritten by a third party from 1 October 2005.

The insurance liabilities for insurance products written prior to 2005 (and mechanical breakdown insurance written up to 30 September 2005) have been commuted to a third party insurer during the year and therefore the group is no longer exposed to any insurance risk.

Insurance contract assets

At 31 December 2005 the group had insurance premiums receivable from the fronting insurers of £0.3 million (2004: £3.5 million) and had a profit share debtor of £5.8 million (2004: £2.2 million).

Insurance contract liabilities

Following the commutation of the group's insurance liabilities, the group has no insurance contract liabilities as at 31 December 2005, as detailed in the table below.

	2005			2004		
Group	**Unearned reinsurance premiums £'000**	**ICOP reserve £'000**	**IBNR reserve £'000**	Unearned reinsurance premiums £'000	ICOP reserve £'000	IBNR reserve £'000
At 1 January	**35,014**	**36**	**380**	28,553	85	339
Premiums written	**3,392**	**–**	**–**	33,753	–	–
Premiums earned	**(15,419)**	**–**	**–**	(27,292)	–	–
Previous year's claims paid	**–**	**–**	**(261)**	–	–	(324)
Change in previous year's claims	**–**	**(36)**	**(84)**	–	(49)	122
New IBNR reserve created	**–**	**–**	**64**	–	–	243
Commutation	**(22,987)**	**–**	**(99)**	–	–	–
At 31 December	**–**	**–**	**–**	35,014	36	380

Of the unearned reinsurance premiums as at 1 January 2005, £23.8 million is included within loans and receivables (2004: £19.7 million) and £11.2 million is included within trade and other payables (2004: £8.8 million).

The company has no insurance contract assets or liabilities.

27 Provisions

Group	Restructuring £'000	Contingent consideration £'000	Dilapidations £'000	Other £'000	Total £'000
At 1 January 2005[1]	3,359	–	1,738	72	5,169
Additional provisions made during the year	–	2,400	72	–	2,472
Amounts utilised during the year	(3,359)	(419)	(189)	(72)	(4,039)
At 31 December 2005	**–**	**1,981**	**1,621**	**–**	**3,602**

Provisions have been analysed between current and non-current liabilities as follows:	2005 £'000	2004 £'000
Current	**2,367**	4,268
Non-current	**1,235**	1,281
	3,602	5,549

[1] The IBNR provision at 1 January 2005 of £0.4 million and the movement thereon in 2005 is shown in note 26.

The restructuring provision related to restructuring activities within the Consumer Credit division.

The contingent consideration provision held by the company relates to the disposal of Cattles Commercial as discussed in note 5.

The dilapidations provision relates to the future cost of rectifying dilapidations across the group's portfolio of properties which are under tenant-repairing leases.

28 Equity share capital

Group and Company	Number	£'000
Authorised ordinary shares of 10p each		
At 1 January 2005 and 31 December 2005	**500,000,000**	**50,000**
Allotted, called up and fully paid ordinary shares of 10p each		
At 1 January 2005	328,679,318	32,868
Exercise of options	189,663	19
At 31 December 2005	**328,868,981**	**32,887**

The rights attached to the ordinary shares are as follows:

Voting

On a show of hands every ordinary shareholder who is present in person at a general meeting of the company shall have one vote and on a poll every ordinary shareholder who is present in person or by proxy shall have one vote for every share held.

Dividends

Ordinary shareholders shall be entitled to receive such dividend as the company by ordinary resolution may from time to time declare as a final dividend (such dividend not to exceed the amount recommended by the Board) or as the Board may from time to time declare as an interim dividend.

Return of capital on a winding-up

Ordinary shareholders are entitled to participate in any surplus assets on the winding-up of the company in proportion to their shareholdings.

29 Share-based payments

(a) Group

The group recognised a total charge of £2.6 million (2004: £1.7 million) related to equity-settled share-based payment transactions during the year ended 31 December 2005.

Equity-settled share option schemes

Outstanding options under the Cattles Executive Share Option Scheme (1994), the Cattles Executive Share Option Scheme (1996) and the Cattles Employee Sharesave Scheme at 31 December 2005 are as follows:

Period granted	Exercise price (pence)	Exercise period	2005 Number of share options	2004 Number of share options
Executive Share Option Schemes				
1996	130.65	1999 – 2006	–	22,000
1997	171.25 – 171.50	2000 – 2007	46,400	46,400
1998	241.35 – 241.75	2001 – 2008	9,600	9,600
1999	326.40 – 363.95	2002 – 2009	230,000	260,000
2000	220.10 – 245.70	2003 – 2010	4,000	26,000
2001	221.60 – 283.20	2004 – 2011	48,400	59,900
2002	324.50 – 331.90	2005 – 2012	36,000	36,000
			374,400	459,900
Employee Sharesave Scheme				
1999	259.20	2004 – 2005	–	39,119
2001	200.90	2006 – 2007	762,710	934,503
2003	285.60	2008 – 2009	445,839	635,504
2005	234.20	2010 – 2011	870,829	–
			2,453,778	2,069,026

The outstanding share options may be analysed by range of exercise prices as follows:

Range of exercise prices (pence)	2005 Weighted average exercise price (pence)	2005 Number of share options	2005 Weighted average remaining life (years)	2004 Weighted average exercise price (pence)	2004 Number of share options	2004 Weighted average remaining life (years)
130.65 – 199.00	171.44	46,400	1.68	158.32	68,400	2.25
200.00 – 249.00	223.53	1,666,139	3.57	202.45	996,603	2.62
250.00 – 299.00	285.39	475,239	3.53	283.98	708,023	4.28
300.00 – 363.95	355.18	266,000	3.74	355.48	296,000	4.70
Total	248.79	2,453,778	3.55	250.78	2,069,026	3.47

Details of the share option schemes and of the directors' interests in share options and the issued shares of the company are set out in the Report of the Board on Directors' Remuneration on pages 33 and 34 and the Report of the Directors on page 17, respectively.

29 Share-based payments continued

Equity-settled share option schemes continued

A reconciliation of option movements during the year is shown below:

	2005		2004	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of year	**2,069,026**	**250.78**	3,163,746	252.68
Granted during year	**878,109**	**243.20**	–	–
Exercised during year	**(189,663)**	**216.93**	(714,811)	256.64
Expired during year	**(303,694)**	**266.05**	(379,909)	255.56
Outstanding at 31 December	**2,453,778**	**248.79**	2,069,026	250.78
Exercisable at 31 December	**374,400**	**315.54**	463,019	297.73

On 25 October 2005, 878,109 options were granted with an estimated fair value of £0.2 million. The weighted average share price during the period for options exercised over the year was 320p (2004: 338p).

Shares issued under senior executive performance related plans and staff share incentive plan

The group has a number of share award plans for senior executives, namely the Restricted Share Scheme and Long-Term Incentive Plan. Details of each plan are set out in the Report of the Board on Directors' Remuneration on pages 28 and 29. During the year 546,408 shares (2004: 446,677 shares) with an estimated fair value of £1.3 million (2004: £1.3 million) were awarded to directors and senior executives under the Long-Term Incentive Plan and Restricted Share Scheme respectively.

The group also operates a Share Incentive Plan which is open to all eligible UK employees, including executive directors, and is an HMRC approved all-employee scheme. During the year 640,226 shares (2004: 546,417 shares) with an estimated fair value of £1.4 million (2004: £1.4 million) were awarded to staff, including senior executives under the Share Incentive Plan.

(b) Company

The company recognised a total charge of £0.9 million (2004: £0.7 million) related to equity-settled share-based payment transactions during the year ended 31 December 2005.

Equity-settled share option schemes

Outstanding options under the Cattles Executive Share Option Scheme (1994), the Cattles Executive Share Option Scheme (1996) and the Cattles Employee Sharesave Scheme at 31 December 2005 are as follows:

Period granted	Exercise price (pence)	Exercise period	2005 Number of share options	2004 Number of share options
Executive Share Option Schemes				
1998	241.75	2001 – 2008	**7,600**	7,600
1999	326.40 – 363.95	2002 – 2009	**16,000**	24,000
2000	245.70	2003 – 2010	**–**	4,000
2001	221.60 – 281.90	2004 – 2011	**4,000**	4,000
			27,600	39,600
Employee Sharesave Scheme				
2001	200.90	2006 – 2007	**75,398**	91,254
2003	285.60	2008 – 2009	**27,758**	32,818
2005	234.20	2010 – 2011	**25,471**	–
			156,227	163,672

29 Share-based payments continued

Equity-settled share option schemes continued

The outstanding share options may be analysed by range of exercise prices as follows:

Range of exercise prices (pence)	2005 Weighted average exercise price (pence)	2005 Number of share options	2005 Weighted average remaining life (years)	2004 Weighted average exercise price (pence)	2004 Number of share options	2004 Weighted average remaining life (years)
200.00 – 249.00	**213.98**	**112,469**	**2.57**	206.26	106,854	2.80
250.00 – 299.00	**285.60**	**27,758**	**3.42**	285.60	32,818	4.42
300.00 – 363.95	**354.56**	**16,000**	**3.38**	357.69	24,000	4.33
Total	**241.10**	**156,227**	**2.80**	244.37	163,672	3.35

A reconciliation of option movements during the year is shown below:

	2005 Number of share options	2005 Weighted average exercise price (pence)	2004 Number of share options	2004 Weighted average exercise price (pence)
Outstanding at beginning of year	**163,672**	**244.37**	307,379	258.13
Granted during year	**25,471**	**243.20**	–	–
Exercised during year	**(12,277)**	**200.90**	(112,505)	258.92
Expired during year	**(20,639)**	**293.55**	(31,202)	327.45
Outstanding at 31 December	**156,227**	**241.10**	163,672	244.37
Exercisable at 31 December	**27,600**	**304.23**	39,600	310.38

On 25 October 2005, 25,471 options were granted with an estimated fair value of £6,000. The weighted average share price during the period for options exercised over the year was 320p (2004: 338p).

Fair value of share-based payments

The fair values of all share-based payments arising from share awards granted post 7 November 2002 have been estimated using the Black-Scholes option pricing model. The assumptions used in the calculations are as follows:

Arrangement	Employee Sharesave Scheme	Restricted Share Scheme		Long-Term Incentive Plan	Share Incentive Plan	
Nature of arrangement	Grant of options	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares
Grant date	25/10/2005	01/01/2004	01/04/2004	23/05/2005	31/08/2004	10/05/2005
Share price at grant date	271p	334.25p	339p	298p	320p	304.75p
Exercise price	243.2p	0p	0p	0p	0p	0p
Shares under option (at grant date)	878,109	369,482	77,195	546,408	546,417	640,226
Vesting period (years)	5.1	3.3	3.0	3.0	2.0	2.0
Expected volatility	31%	n/a	n/a	n/a	n/a	n/a
Expected life (years)	5.1	3.3	3.0	3.0	2.0	2.0
Risk free rate	4.3%	n/a	n/a	n/a	n/a	n/a
Expected dividends expressed as dividend yield	5.4%	3.3%	3.6%	4.7%	n/a	n/a
Expected forfeiture rate (p.a.)	17%	5%	5%	5%	14%	14%
Fair value per option	**60.9p**	**300.4p**	**304.4p**	**258.8p**	**320.0p**	**304.75p**

The expected volatility is based on historical volatility over an appropriate period, consistent with the assumed option life. The expected life is the average expected period to exercise from the date of grant. The vesting period represents the contractual period to the earliest vesting date. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

30 Shareholders' funds and statement of changes in shareholders' equity

Group	Share capital £'000 (note 28)	Share premium £'000	Other reserves £'000 (note 31)	Retained earnings £'000	Total equity £'000
At 1 January 2004 (note 38)	32,796	139,850	(8,720)	140,346	304,272
Actuarial losses on defined benefit pension scheme, net of tax	–	–	–	(2,524)	(2,524)
Amortisation of transitional hedging reserve	–	–	3,520	–	3,520
Vesting of share awards (outside the scope of IFRS 2)	–	–	–	(923)	(923)
Net gains/(losses) recognised directly in equity	–	–	3,520	(3,447)	73
Profit for the year	–	–	–	71,347	71,347
Total recognised income and expense for year	–	–	3,520	67,900	71,420
Share-based payments:					
– Value of services provided	–	–	–	1,665	1,665
– Settlement of share awards	–	–	–	(1,732)	(1,732)
Purchase of own shares	–	–	(1,135)	–	(1,135)
Vesting of shares	–	–	923	–	923
Dividend	–	–	–	(41,481)	(41,481)
Issue of equity – exercise of options	72	1,764	–	–	1,836
At 1 January 2005 (note 38)	32,868	141,614	(5,412)	166,698	335,768
Actuarial losses on defined benefit pension scheme, net of tax	–	–	–	(4,806)	(4,806)
Fair value losses in cash flow hedges, net of tax	–	–	(6,671)	–	(6,671)
Transfers to net profit, including amortisation of transitional hedging reserve	–	–	3,680	–	3,680
Vesting of share awards (outside the scope of IFRS 2)	–	–	–	(1,006)	(1,006)
Net losses recognised directly in equity	–	–	(2,991)	(5,812)	(8,803)
Profit for the year	–	–	–	80,489	80,489
Total recognised income and expense for year	–	–	(2,991)	74,677	71,686
Share-based payments:					
– Value of services provided	–	–	–	2,561	2,561
– Settlement of share awards	–	–	–	(1,603)	(1,603)
Purchase of own shares	–	–	(1,391)	–	(1,391)
Vesting of shares	–	–	1,006	–	1,006
Dividend	–	–	–	(47,501)	(47,501)
Issue of equity – exercise of options	19	393	–	–	412
At 31 December 2005	**32,887**	**142,007**	**(8,788)**	**194,832**	**360,938**

30 Shareholders' funds and statement of changes in shareholders' equity continued

Company	Share capital £'000 (note 28)	Share premium £'000	Other reserves £'000 (note 31)	Retained earnings £'000	Total equity £'000
At 1 January 2004 (note 38)	32,796	139,850	34,045	79,466	286,157
Actuarial losses on defined benefit pension scheme, net of tax	–	–	–	(2,524)	(2,524)
Amortisation of transitional hedging reserve	–	–	3,520	–	3,520
Vesting of share awards (outside the scope of IFRS 2)	–	–	–	(923)	(923)
Net gains/(losses) recognised directly in equity	–	–	3,520	(3,447)	73
Profit for the year	–	–	–	47,841	47,841
Total recognised income and expense for year	–	–	3,520	44,394	47,914
Share-based payments:					
– Value of services provided by company and subsidiary employees	–	–	–	1,665	1,665
– Settlement of share awards	–	–	–	(1,732)	(1,732)
Dividends	–	–	–	(41,481)	(41,481)
Issue of equity – exercise of options	72	1,764	–	–	1,836
At 1 January 2005 (note 38)	32,868	141,614	37,565	82,312	294,359
Actuarial losses on defined benefit pension scheme, net of tax	–	–	–	(4,806)	(4,806)
Fair value losses in cash flow hedges, net of tax	–	–	(6,671)	–	(6,671)
Transfers to net profit, including amortisation of transitional hedging reserve	–	–	3,680	–	3,680
Vesting of share awards (outside the scope of IFRS 2)	–	–	–	(1,006)	(1,006)
Net losses recognised directly in equity	–	–	(2,991)	(5,812)	(8,803)
Profit for the year	–	–	–	49,070	49,070
Total recognised income and expense for year	–	–	(2,991)	43,258	40,267
Share-based payments:					
– Value of services provided by company and subsidiary employees	–	–	–	2,561	2,561
– Settlement of share awards	–	–	–	(1,603)	(1,603)
Dividends	–	–	–	(47,501)	(47,501)
Issue of equity – exercise of options	19	393	–	–	412
At 31 December 2005	**32,887**	**142,007**	**34,574**	**79,027**	**288,495**

31 Other reserves

Group	Hedging reserve £'000	Own shares held reserve £'000	Total other reserves £'000
At 1 January 2004	(5,022)	(3,698)	(8,720)
Amortisation of transitional hedging reserve	3,520	–	3,520
Purchase of own shares	–	(1,135)	(1,135)
Vesting of shares in Restricted Share Scheme	–	923	923
At 1 January 2005	(1,502)	(3,910)	(5,412)
Fair value losses in cash flow hedges, net of tax	(6,671)	–	(6,671)
Transfers to net profit, including amortisation of transitional hedging reserve	3,680	–	3,680
Purchase of own shares	–	(1,391)	(1,391)
Vesting of shares in Restricted Share Scheme	–	1,006	1,006
At 31 December 2005	**(4,493)**	**(4,295)**	**(8,788)**

Hedging reserve

From 1 January 2005, the group achieved hedge accounting such that the hedging reserve includes the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred. The reserve also includes the unamortised portion of a hedging reserve which arose, in the absence of hedge accounting, on transition to IFRS of £0.5 million credit at 31 December 2005 (2004: £1.5 million debit). This element of the hedging reserve is being amortised through the income statement in a way so as to reflect how the item that was being hedge accounted under UK GAAP has affected profit or loss in the period.

Own shares held reserve

The own shares held reserve comprises the cost of the shares in Cattles plc held by the Employee Benefit Trust to meet obligations under the Restricted Share Scheme and the Long-Term Incentive Plan. The shares were acquired by the Trust in the open market using funds provided by the company.

	Shares held in Trust Number	Nominal value £'000
At 1 January 2005	1,289,065	129
Shares purchased	501,965	50
Awarded by the Trust	(358,077)	(36)
At 31 December 2005	**1,432,953**	**143**

Shares purchased during the year represent 0.2% of the company's called-up share capital as at 31 December 2005. The market value of the own shares held at 31 December 2005 was £4.7 million (2004: £4.7 million).

As at 31 December 2005, the shareholders' authority for the company to purchase its own shares, as approved in Resolution 9 at the annual general meeting of 5 May 2005, remained valid.

31 Other reserves continued

Company	Hedging reserve £'000	Capital reduction reserve £'000	Special reserve £'000	Merger reserve £'000	Total other reserves £'000
At 1 January 2004	(5,022)	8,840	26,000	4,227	34,045
Amortisation of transitional hedging reserve	3,520	–	–	–	3,520
At 1 January 2005	(1,502)	8,840	26,000	4,227	37,565
Fair value losses in cash flow hedges, net of tax	(6,671)	–	–	–	(6,671)
Transfers to net profit, including amortisation of transitional hedging reserve	3,680	–	–	–	3,680
At 31 December 2005	**(4,493)**	**8,840**	**26,000**	**4,227**	**34,574**

Capital reduction and special reserves

The capital reduction and special reserves arose in 1991 and 1994 respectively following Court approval to transfer these amounts from the share premium account. These reserves are considered non-distributable.

Merger reserve

The merger reserve has arisen over numerous years in relation to past acquisitions. This reserve is considered non-distributable.

32 Reconciliation of profit before taxation to cash (out)/inflow from operations

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Profit before taxation	**115,134**	102,268	**76,647**	38,046
Adjustments for:				
Profit on disposal of subsidiary undertakings	**(470)**	–	**(10,263)**	–
Depreciation of property, plant and equipment	**6,705**	7,281	**140**	162
Profit on disposal of property, plant and equipment	**(351)**	(902)	**(20)**	(124)
Amortisation of intangible assets	**2,595**	2,526	**13**	8
Loss on disposal of intangible assets	**–**	139	**–**	–
Share-based payments	**958**	(68)	**(729)**	(1,056)
Amortisation of transitional hedging reserve	**–**	3,520	**–**	3,520
Fair value movements on derivatives	**(1,610)**	3,036	**(1,610)**	3,036
Exchange gain on US Dollar borrowings	**–**	(4,055)	**–**	(4,055)
Increase in loans and receivables	**(255,741)**	(280,893)	**–**	–
(Increase)/decrease in inventories	**(992)**	899	**–**	–
Increase in trade and other receivables	**(10,638)**	(3,306)	**(698)**	(711)
Increase in trade and other payables	**46,899**	9,992	**1,900**	2,973
(Decrease)/increase in borrowings	**(1,155)**	23,236	**(1,155)**	23,236
(Decrease)/increase in provisions	**(3,928)**	3,810	**–**	–
Decrease in retirement benefit obligation	**(1,077)**	(663)	**(1,077)**	(663)
Cash (out)/inflow from operations	**(103,671)**	(133,180)	**63,148**	64,372

The amount of interest paid and received during the year was as follows:

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Interest paid	**89,314**	53,912	**87,536**	52,725
Interest received	**5,238**	5,019	**104,957**	74,131

33 Pension obligations

The group operates both defined benefit and defined contribution pension plans.

Defined contribution post-employment benefit plans

The group operates a number of defined contribution personal pension plans for new employees and for existing employees who are not members of the defined benefit scheme. The expense recognised for the defined contribution plans is £1.0 million (2004: £1.1 million).

Defined benefit post-employment benefit plan

The group operates a funded defined benefit scheme for certain employees, providing benefits based on final salary. The assets of the scheme are held in a separate trustee-administered fund. Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The scheme was closed to new applicants from 1998.

The principal assumptions used in the valuation of the retirement benefit obligation were as follows:

	2005 %	2004 %
Inflation rate	**2.9**	2.8
Discount rate	**4.7**	5.3
Expected return on assets	**7.0**	7.3
Rate of increase in pay (i)	**4.4**	4.3
Rate of increase of pensions in payment (ii)	**2.9**	2.8
Rate of increase for deferred pensioners (ii)	**2.9**	2.8

(i) in addition, allowance is made for scale of age related promotional increases.
(ii) in excess of any Guaranteed Minimum Pension ('GMP') element.

The most significant non-financial assumption is the assumed rate of longevity, which is based on the standard tables known as PA92, projected to the year 2004, with an age rating of minus two years applied for non-pensioners and minus one year for pensioners.

The expected return on assets has been derived at the weighted average of the expected returns from each of the main asset classes (i.e. equities and bonds). The expected return for each class of asset, as shown below, reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available), and the views of investment organisations.

	2005 %	2004 %
Equities	**8.10**	8.30
Fixed interest bonds	**4.30**	4.80
Cash	**4.50**	4.75
Total	**7.00**	7.30

33 Pension obligations continued

Amounts recognised in the income statement in respect of the defined benefit plan are as follows:

	Group and Company	
	2005 £'000	2004 £'000
Current service cost (i)	**1,431**	1,791
Past service cost	**–**	126
Interest cost	**3,543**	3,200
Expected return on plan assets	**(2,816)**	(2,428)
Total defined benefit pension expense (note 13)	**2,158**	2,689

(i) current service cost is net of employee contributions and inclusive of interest to the reporting date.

The pension expense charge for the year is included in administrative expenses in the income statement.

The actual return on plan assets was £7.4 million (2004: £4.0 million).

The cumulative actuarial gains and losses (before deferred tax) recognised in the Statement of Recognised Income and Expense in respect of the defined benefit plan are as follows:

	Group and Company	
	2005 £'000	2004 £'000
Net actuarial loss recognised in the year	**6,866**	3,606
Cumulative net actuarial losses recognised at start of year	**3,606**	–
Cumulative net actuarial losses recognised at end of year	**10,472**	3,606

Changes in the present value of the defined benefit obligation are as follows:

	Group and Company	
	2005 £'000	2004 £'000
Present value of defined benefit obligation at start of year	**67,290**	59,621
Current service cost	**1,431**	1,791
Interest cost	**3,543**	3,200
Past service cost	**–**	126
Contributions by plan participants	**316**	373
Actuarial loss	**11,438**	5,133
Benefit payments	**(2,598)**	(2,954)
Present value of defined benefit obligations at end of year	**81,420**	67,290

Changes in the fair value of plan assets are as follows:

	Group and Company	
	2005 £'000	2004 £'000
Fair value of plan assets at start of year	**38,360**	33,634
Expected return on plan assets	**2,816**	2,428
Actuarial gain	**4,572**	1,527
Contributions by plan participants	**316**	373
Contributions by the employer	**3,235**	3,352
Benefit payments	**(2,598)**	(2,954)
Fair value of plan assets at end of year	**46,701**	38,360

33 Pension obligations continued

The fair value of plan assets at the balance sheet date is analysed as follows:

	Group and Company	
	2005 £'000	2004 £'000
Equities	32,971	26,852
Fixed interest bonds	13,403	11,124
Cash	327	384
	46,701	38,360

The plan assets do not include any of the group's own financial instruments, nor any property occupied by, or other assets used by, the group.

The history of the plan for the current and prior year is as follows:

	Group and Company	
	2005 £'000	2004 £'000
Defined benefit obligation	81,420	67,290
Fair value of plan assets	(46,701)	(38,360)
Retirement benefit obligation as included in the balance sheet	34,719	28,930
Experience loss on defined benefit obligation	11,438	5,133
Experience gain on plan assets	(4,572)	(1,527)
Net actuarial loss recognised in the year	6,866	3,606

In accordance with the transitional provisions of the amendment to IAS 19 'Employee Benefits', the above disclosures are determined prospectively from the 2004 reporting period.

Members contribute at the rate of either 3% or 5% of pensionable salaries, depending on their membership status. The estimated amount of employee contributions for 2006 is £0.3 million.

The participating employer companies make normal contributions of 3.4 times members' contributions such that the estimated amount of normal employer contributions for 2006 is £1.1 million. In addition, the company has entered into an agreement with the pension scheme whereby it will make additional shortfall contributions of £2.2 million per annum. Therefore, the estimated total amount of employer contributions for 2006 is £3.3 million.

34 Operating lease arrangements

At the balance sheet date the group and company had total future lease payments under non-cancellable operating leases, which expire as follows:

	Group				Company			
	2005		2004		2005		2004	
	Land and buildings £'000	Motor vehicles £'000	Land and buildings £'000	Motor vehicles £'000	Land and buildings £'000	Motor vehicles £'000	Land and Buildings £'000	Motor vehicles £'000
Future lease payments:								
Within one year	690	792	553	331	3	4	3	10
In two to five years	12,043	6,702	12,354	9,308	–	321	4	115
After five years	9,403	–	10,422	–	879	–	1,026	–
	22,136	7,494	23,329	9,639	882	325	1,033	125

The following amounts were recognised in the income statement during the year:

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Lease payments	13,142	11,566	259	226

35 Contingent liabilities

The company remains as guarantor of a proportion of the leases of properties held and utilised by Homestyle Group plc (formerly Rosebys PLC) entered into when that company was a wholly owned subsidiary undertaking. The maximum liability under these guarantees amounts to £0.7 million (2004: £0.9 million).

36 Capital and other financial expenditure commitments

The group had expenditure authorised and contracted but not provided for in relation to property, plant and equipment and software of £9.1 million at 31 December 2005 (2004: £0.7 million). The company had no capital expenditure authorised and contracted but not provided for at 31 December 2005 (2004: £nil).

37 Related party transactions

The group's payroll is administered by one subsidiary undertaking with the relevant payroll charges being recharged to the parent company and fellow group companies. The subsidiary undertaking does not make any charge for providing these services.

The company provides borrowing facilities for its subsidiary undertakings, for which a financing charge is levied each month. This charge is based upon the company's average cost of borrowing.

The company also levies a management fee to certain of its subsidiary undertakings in relation to providing them with certain services, such as property management, procurement and internal audit. This management fee is calculated on a cost incurred basis.

The company is provided with IT and compliance services by one of its subsidiary undertakings for which a management charge is incurred. The charge is calculated on a cost incurred basis.

The following related party transactions were carried out by the company with its subsidiary undertakings during the year:

	2005 £'000	2004 £'000
Lending of funds	**203,794**	254,663
Intra-group finance income	**102,083**	72,459
Management fee – central services	**1,139**	1,400
Management charge – IT and compliance services	**2,590**	300

Receivables due from and payables to subsidiary undertakings are disclosed in note 19 and note 23 respectively.

Key management compensation is disclosed in note 13.

38 Transition to IFRS

These financial statements for the year ended 31 December 2005 are the first annual financial statements that comply with IFRS. The date of transition from UK GAAP to IFRS for the group and the company was 1 January 2004.

The group and the company have applied certain of the optional exemptions from full retrospective application of IFRS and the mandatory exceptions of IFRS 1 'First-time adoption of IFRS' as follows:

Exemptions from full retrospective application

The group and the company have applied only the following optional exemptions:

Business combinations – The group has not restated any business combinations that took place prior to 1 January 2004.

Fair value as deemed cost – The group has elected to use the previous revaluations of certain freehold and long leasehold properties under UK GAAP as the deemed cost of these assets as at 1 January 2004.

Share-based payment transactions – The group and the company have applied IFRS 2 from 1 January 2004 to those share awards that were issued after 7 November 2002 but that have not vested by 1 January 2005.

Designation of financial assets and financial liabilities – The group has reclassified certain current asset investments as financial assets at fair value through profit or loss as at 1 January 2004.

The group and the company have not elected to take advantage of the exemption from restating comparatives for IAS 32, IAS 39 and IFRS 4 given the nature of its business, and there being no similar exemption for IAS 17 in relation to lease and hire purchase receivables, in order that the 2004 comparatives are meaningful.

Exceptions from full retrospective application

The group and the company have applied the following mandatory exceptions:

Derecognition of financial assets and liabilities – Non-derivative financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The group and the company did not choose to apply the IAS 39 derecognition criteria from an earlier date.

Hedge accounting – The group and the company have claimed hedge accounting with effect from 1 January 2005 where hedge relationships meet the hedge accounting criteria under IAS 39.

Estimates – Estimates under IFRS at 1 January 2004 are consistent with estimates made for the same date under UK GAAP.

Assets held for sale and discontinued operations – The group has applied IFRS 5 prospectively from 1 January 2005. Therefore, the net assets of Cattles Commercial Finance Limited and Cattles Commercial Leasing Limited were not classified as held for sale at 31 December 2004, despite this group of net assets having met the criteria to enable such a classification to have been made.

Reconciliations between UK GAAP and IFRS

In order to show the effect of the transition from UK GAAP to IFRS on the group's and the company's reported financial position and financial performance, IFRS 1 requires the following reconciliations to be presented and explained:

- A reconciliation of equity (i.e. net assets) at 1 January 2004 and 31 December 2004; and
- A reconciliation of profit for the year ended 31 December 2004.

Each of these reconciliations are presented and explained on pages 86 to 108. In addition, in order to show the effect of the transition from UK GAAP to IFRS on the group's and the company's cash flows, reconciliations of cash flows for the year ended 31 December 2004 have also been given.

Notes to the Accounts

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(a) Reconciliation of equity at 1 January 2004 – Group

		IFRS Adjustments				
	Previously reported UK GAAP balances in UK GAAP format	IAS 32/39 Financial instruments Income recognition	IAS 32/39 Financial instruments Loan loss provisioning	IAS 21/32/39 Financial instruments Treasury & hedging	IAS 19 Employee benefits	IFRS 2 Share-based payments
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets						
Intangible assets	52,617					
Tangible fixed assets	38,511					
		(16,208)				
				1,569		
	91,128	(16,208)		1,569		
Current assets						
Customers' accounts receivable	1,352,396	(85,560)	(40,158)			
Stocks	3,399					
Debtors	28,284	(1,466)		(4,874)	(110)	
Investments	61,192					
Cash at bank and in hand	41,538					
	1,486,809	(87,026)	(40,158)	(4,874)	(110)	
Creditors – amounts falling due within one year						
Bank and other borrowings	(228,222)			(5,425)		
Corporation tax	(31,654)					
Dividends payable	(26,606)					
Trade and other creditors and accruals	(103,419)	31,715		5,962	(500)	2,923
			603			
	(389,901)	31,715	603	537	(500)	2,923
Net current assets	1,096,908					
Total assets less current liabilities	1,188,036					
Creditors – amounts falling due after more than one year						
Bank and other borrowings	(795,192)			18,038		
					(25,987)	
Provision for deferred tax	(2,604)					
				(21,200)		
Trade and other creditors and accruals	(4,287)	(4,252)	340			1,263
	(802,083)	(4,252)	340	(3,162)	(25,987)	1,263
Net assets	**385,953**	**(75,771)**	**(39,215)**	**(5,930)**	**(26,597)**	**4,186**
Capital and reserves						
Share capital	32,796					
Share premium account	139,850					
Revaluation reserve	242			(5,022)		
Profit and loss account	213,065	(75,771)	(39,215)	(908)	(26,597)	4,186
Equity shareholders' funds	**385,953**	**(75,771)**	**(39,215)**	**(5,930)**	**(26,597)**	**4,186**

IFRS Adjustments						
IFRS 3 Business combinations	IAS 10 Events after the balance sheet date	IAS 12 Income tax	Others	Total effect of the transition to IFRS	Restated IFRS balances in IAS 1 format	
£'000	£'000	£'000	£'000	£'000		£'000
					ASSETS	
					Non-current assets	
(10,990)			4,544	(6,446)	Intangible assets	46,171
			(4,119)	(4,119)	Property, plant and equipment	34,392
			627,594	611,386	Loans and receivables	611,386
		47,885		47,885	Deferred tax assets	47,885
				1,569	Derivative financial instruments	1,569
(10,990)		47,885	628,019	650,275		**741,403**
					Current assets	
			(627,594)	(753,312)	Loans and receivables	599,084
					Inventories	3,399
				(6,450)	Trade and other receivables	21,834
			(12,281)	(12,281)	Investments at fair value through profit or loss	48,911
			12,281	12,281	Cash and cash equivalents	53,819
			(627,594)	(759,762)		**727,047**
					Total assets	**1,468,450**
					LIABILITIES	
					Current liabilities	
				(5,425)	Borrowings and overdrafts	(233,647)
					Current tax liabilities	(31,654)
	26,606			26,606		
			5,447	45,547	Trade and other payables	(57,872)
			(1,513)	(910)	Provisions	(910)
		(3,560)		(3,560)	Deferred tax liability	(3,560)
	26,606	(3,560)	3,934	62,258		**(327,643)**
					Non-current liabilities	
				18,038	Borrowings	(777,154)
				(25,987)	Retirement benefit obligation	(25,987)
		2,604		2,604		
				(21,200)	Derivative financial instruments	(21,200)
			(4,124)	(6,773)	Trade and other payables	(11,060)
			(1,134)	(1,134)	Provisions	(1,134)
		2,604	(5,258)	(34,452)		**(836,535)**
					Total liabilities	**(1,164,178)**
(10,990)	**26,606**	**46,929**	**(899)**	**(81,681)**	**Net assets**	**304,272**
					SHAREHOLDERS' EQUITY	
					Share capital	32,796
					Share premium account	139,850
			(3,940)	(8,962)	Other reserves	(8,720)
(10,990)	26,606	46,929	3,041	(72,719)	Retained earnings	140,346
(10,990)	**26,606**	**46,929**	**(899)**	**(81,681)**	**Total shareholders' equity**	**304,272**

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(a) Reconciliation of equity at 1 January 2004 – Group continued

The adoption of IAS 32 and IAS 39 has had a significant impact on the group's equity in three key areas; income recognition, loan loss provisioning, and treasury and hedging, each of which is explained below:

IAS 32 and IAS 39 Financial instruments – Income recognition

IFRS requires the group's customers' accounts receivable balance, including acquired default debt, to be classified as 'loans and receivables' and for these balances to be held at amortised cost using the effective interest method. The effective interest method allocates the interest income arising from a loan over its expected life, or contractual life if shorter. The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the loan to its net carrying amount. When calculating the EIR, all cash flows arising from the contractual terms of the loan, such as early settlement options, have to be considered.

The EIR calculation includes all direct and incremental fees and costs. Consequently, acceptance fees and similar fees charged to customers on inception of the loan agreement, as well as commissions earned on the sale of payment protection insurance sold alongside the loan, are included as part of the EIR and effectively recognised over the expected term of the loan. In addition, transaction costs incurred on inception of the loan, which are direct and incremental, such as broker commissions and certain agents' commissions, are also included in the EIR and recognised over the expected period of the loan.

The application of the effective interest method has the effect of recognising income to give a constant rate of return on the amount outstanding from the customer over the period of the loan.

The effective interest method of income recognition differs to that which had been adopted by the group under UK GAAP. Previously, interest receivable on secured and unsecured interest-bearing personal loan agreements was recognised on an accruals basis. In the case of home collected credit, an initial amount of the interest receivable was credited to the income statement, mainly to cover the costs associated with setting up the transaction. The remaining amount of interest was carried forward as deferred revenue and released on a straight line basis in proportion to the reduction in the customer's outstanding balance. In the case of hire purchase agreements, which now fall under the scope of IAS 17 'Leases' but where the accounting treatment is similar to that under IAS 39, interest receivable was previously computed at the inception of the loan, added to the customer's balance and released to profit on the 'sum of the digits' basis over the life of the agreement with unearned interest carried forward as deferred revenue.

Acceptance fees and similar fees, and payment protection insurance commissions, were previously recognised on inception of the loan agreement with an appropriate provision made for the rebate of such fees should a customer settle their loan early.

Under UK GAAP, a proportion of loan origination costs were spread over the life of the loan. However, certain of these costs are not considered to be direct and incremental to individual loans as they relate to marketing and advertising costs.

Previously, acquired default debt, together with any fees incurred in initial court action, was included at cost and amortised over a period not exceeding six years at a rate based on the expected recoverability period of the debt. In addition, costs of enforcements, incurred during the life of the debt, were amortised over the life of the enforcement action. Under IFRS, the EIR calculation is based only on estimated expected collections and initial court costs with enforcement costs being charged to the income statement as incurred.

The derecognition rules within IAS 39 have also resulted in a change to how the liability for unallocable cash receipts is measured.

The total impact as at 1 January 2004 (before any loan loss provisioning adjustment) of loans and receivables being valued at amortised cost was a decrease in loans and receivables by £101.8 million, a decrease in trade and other receivables by £1.5 million, a decrease in trade and other payables by £27.5 million and a decrease in retained earnings by £75.8 million.

IAS 32 and IAS 39 Financial instruments – Loan loss provisioning

IFRS requires the group to assess at each balance sheet date whether there is any objective evidence that a loan or a group of loans is impaired. If any such impairment exists, the amount of the loan loss provision is measured as the difference between the loan's carrying amount on the balance sheet and the present value of estimated future cash flows (excluding future credit losses not yet incurred) discounted at the loan's original EIR.

This methodology differs to that previously adopted under UK GAAP where the provision for doubtful debts was based on the number of months since a full payment, or equivalent, had been received from a direct repayment customer and, in the case of a home collected customer's loan, was based on the level of payments received during the latest 13 week period of the loan. There was no discounting under UK GAAP.

The different provisioning methodology results in a higher initial loan loss provision when a loan is impaired, consequently the impact as at 1 January 2004 was a decrease in loans and receivables by £40.1 million, a decrease in provisions by £0.6 million, a decrease in trade and other payables by £0.3 million and a decrease in retained earnings by £39.2 million.

IAS 21, IAS 32 and IAS 39 Financial instruments – Treasury and hedging

Unlike UK GAAP, IAS 39 requires the fair value of the group's financial hedging instruments, being interest rate and cross-currency swaps, to be held on the balance sheet. The derivative financial instruments are initially recognised and subsequently re-measured at their fair value.

Furthermore, unlike UK GAAP, IAS 21 requires the group's US Dollar denominated borrowings to be re-translated at the spot rate, rather than the hedged rate.

Due to the hedge documentation requirements of IAS 39 having not been determined on transition at 1 January 2004, the group only achieved hedge accounting from 1 January 2005.

The impact of fair valuing the group's derivatives as at 1 January 2004, as well as the re-translation of the borrowings, was to recognise a new asset of £1.6 million for derivative financial instruments, a new liability of £21.2 million for derivative financial instruments, a decrease in borrowings by £13.7 million, a decrease in trade and other receivables by £0.8 million for the write-off of capitalised premiums in relation to interest rate caps and collars, a new hedging reserve of £5.0 million and a decrease in retained earnings by £1.7 million.

IAS 39 also requires that all the group's external borrowings are held at amortised cost with the interest expense recognised on the effective interest method. The EIR of the borrowings is calculated taking into account direct and incremental legal fees incurred in arranging the borrowings.

This requirement resulted in a presentational change whereby accrued interest expense and unamortised legal fees are now presented on the balance sheet as part of the respective borrowings, rather than the accrued interest expense being part of accruals and unamortised legal fees being part of prepayments. Furthermore, the need to amortise legal fees on an EIR basis over the life of the borrowing or facility also resulted in the unamortised legal fees balance being re-calculated on transition. The impact of the presentational change and the re-working of the unamortised legal fees balance was a decrease in trade and other receivables by £4.1 million, a decrease in trade and other payables by £6.0 million, an increase in borrowings by £1.1 million and an increase in retained earnings by £0.8 million.

IAS 19 Employee benefits

IAS 19 requires the value of a defined benefit pension scheme to be included in the balance sheet of the sponsoring employer. Therefore, the value of the deficit of the Cattles defined benefit pension scheme of £26.0 million, calculated by the scheme's actuary as the present value of the pension obligations less the fair value of the scheme's assets, has been recognised as a provision for retirement benefit obligations at 1 January 2004. In addition, the prepayment of £0.1 million, which had arisen under UK GAAP accounting for pensions, has been removed by being written off to retained earnings on transition.

Furthermore, the scope of employee benefits which have to be accounted for under IAS 19 is broader than under UK GAAP. Consequently, the group has recognised a new accrual for holiday pay entitlement earned but not yet taken as at 1 January 2004 of £0.5 million.

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(a) Reconciliation of equity at 1 January 2004 – Group continued

IFRS 2 Share-based payments

The group has a number of share award schemes, being the Restricted Share Scheme for senior executives, the Executive Share Option Scheme, the Share Incentive Plan and the Employee Sharesave Scheme (SAYE).

IFRS 2 requires an expense to be recognised for share-based awards. The expense is calculated by reference to the fair value of the shares or share options granted, using the Black-Scholes model, and is spread over the vesting period of the awards. In arriving at fair values, various assumptions are made, for example, on expected forfeiture rates, dividend yields, share price volatility and risk free rates. When a charge is recognised, a corresponding amount is recorded as an increase in equity.

This approach differs to that previously adopted by the group under UITF 17, whereby the expense was based on the share price at the date of appropriation or notional award. Furthermore, an expense was only recognised in respect of the Restricted Share Scheme and the Share Incentive Plan with the corresponding entry being the recognition of a liability. No charge was required to be made in respect of the Executive Share Option Scheme or the Employee Sharesave Scheme.

Given the different methodology for calculating the share-based payment charge, and the fact that only share awards made after 7 November 2002 which had not vested by 1 January 2005 are included in the scope of IFRS 2, the impact of adopting this standard has been positive. This can be seen in the reconciliation as a decrease in trade and other payables by £4.2 million and an increase in retained earnings by a corresponding amount.

IFRS 3 Business combinations

On transition to IFRS, the group was required to review the carrying value of goodwill for potential impairment. This review showed that no impairment loss had occurred. IFRS 3 has a strict definition of what qualifies as a business within the context of a business combination. The group's previous acquisitions of debt portfolios where no infrastructure was taken over do not meet this new definition and, therefore, goodwill relating to these acquisitions has had to be written off on transition.

The value of goodwill written off to retained earnings as at 1 January 2004 was £11.0 million.

IAS 10 Events after the balance sheet date

Under UK GAAP, dividends were recognised on the balance sheet when proposed. IAS 10 prohibits the recording of a balance sheet liability in relation to proposed distributions until they have been approved. Therefore, as at 1 January 2004, the group's proposed dividend liability of £26.6 million was removed and the amount was written back to retained earnings.

IAS 12 Income tax

The transition to IFRS in areas such as loans and receivables, hedging instruments and the retirement benefit obligation has resulted in deferred tax assets arising from timing differences being recognised. An adjustment to the net deferred tax asset of £46.9 million has been recognised at 1 January 2004.

Others

The adoption of IFRS has resulted in a number of other smaller or presentational changes, including the following:

Reclassification of capitalised software
IAS 38 ‘Intangible Assets’ requires capitalised software costs to be recognised as an intangible asset rather than as a tangible fixed asset as was the case under UK GAAP. Therefore, capitalised software of a net carrying amount of £4.1 million has been reclassified from property, plant and equipment to intangible assets.

Capitalisation of software development costs
Previously under SSAP 13 there was an option to capitalise software development expenditure provided certain criteria were met. However, under IAS 38 costs arising from software development must be capitalised and recognised as an intangible asset if certain detailed criteria are met. The group’s project to develop the next generation of IT and customer relationship management systems meets these criteria such that staff and consultancy costs totalling £0.4 million have been written back to retained earnings and capitalised as an intangible asset.

Reclassification of investments
Previously investments held by the group’s reinsurance company were classified as current asset investments. Under IFRS there is no similar broad classification, therefore, the investments were reclassified dependent on their nature. The investments in fixed interest securities were reclassified as investments held at fair value through profit or loss and fixed interest bank deposits and other cash-based instruments were reclassified as cash equivalents. Consequently, the amount of cash and cash equivalents in the balance sheet increased by £12.3 million as at 1 January 2004.

Reclassification of provisions
On transition to IFRS in order that the format of the group’s balance sheet was in accordance with IAS 1 ‘Presentation of Financial Statements’, the group’s provisions amounting to £2.6 million were reclassified from trade and other payables to provisions.

Reclassification of reserves
On transition to IFRS, the previously revalued amounts of certain of the group’s freehold and leasehold properties were treated as the deemed cost of these assets as permitted by the exemption contained in IFRS 1. Therefore, there is no opening revaluation reserve on transition to IFRS and as such the balance on the revaluation reserve of £0.2 million was transferred into retained earnings.

In accordance with UITF 38, shares held in Cattles plc by the Employee Benefit Trust were classified as part of retained earnings, whereas under IAS 32, this own shares held balance of £3.7 million has been reclassified from retained earnings to a separate own shares held reserve.

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(b) Reconciliation of equity at 31 December 2004 – Group

	Previously reported UK GAAP balances in UK GAAP format	IFRS Adjustments				
		IAS 32/39 Financial instruments Income recognition	IAS 32/39 Financial instruments Loan loss provisioning	IAS 21/32/39 Financial instruments Treasury & hedging	IAS 19 Employee benefits	IFRS 2 Share-based payments
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets						
Intangible assets	47,820					
Tangible fixed assets	42,172					
		(19,622)				
	89,992	(19,622)				
Current assets						
Customers' accounts receivable	1,669,392	(102,897)	(62,641)			
Stocks	2,500					
Debtors	32,803	(1,779)		(5,669)	(215)	
				909		
Investments	74,986					
Cash at bank and in hand	13,872					
	1,793,553	(104,676)	(62,641)	(4,760)	(215)	
Creditors – amounts falling due within one year						
Bank and other borrowings	(11,595)			(29,314)		
Corporation tax	(50,798)					
				(23,576)		
Dividends payable	(30,942)					
Trade and other creditors and accruals	(138,302)	35,424		29,560	(500)	3,282
			765			
	(231,637)	35,424	765	(23,330)	(500)	3,282
Net current assets	1,561,916					
Total assets less current liabilities	1,651,908					
Creditors – amounts falling due after more than one year						
Bank and other borrowings	(1,208,797)			23,068		
					(28,930)	
Provision for deferred tax	(3,497)					
Trade and other creditors and accruals	(2,339)	(3,814)	380			1,523
	(1,214,633)	(3,814)	380	23,068	(28,930)	1,523
Net assets	**437,275**	**(92,688)**	**(61,496)**	**(5,022)**	**(29,645)**	**4,805**
Capital and reserves						
Share capital	32,868					
Share premium account	141,614					
Revaluation reserve	196			(1,502)		
Profit and loss account	262,597	(92,688)	(61,496)	(3,520)	(29,645)	4,805
Equity shareholders' funds	**437,275**	**(92,688)**	**(61,496)**	**(5,022)**	**(29,645)**	**4,805**

	IFRS Adjustments					
	IFRS 3 Business combinations	IAS 10 Events after the balance sheet date	IAS 12 Income tax	Others	Total effect of the transition to IFRS	Restated IFRS balances in IAS 1 format
	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS						
Non-current assets						
Intangible assets	(7,821)			10,730	2,909	50,729
Property, plant and equipment				(9,711)	(9,711)	32,461
Loans and receivables				845,480	825,858	825,858
Deferred tax assets			56,137		56,137	56,137
Derivative financial instruments				895	895	895
	(7,821)		56,137	847,394	876,088	**966,080**
Current assets						
Loans and receivables				(845,480)	(1,011,018)	658,374
Inventories						2,500
Trade and other receivables					(7,663)	25,140
Derivative financial instruments				(895)	14	14
				(74,986)	(74,986)	
Cash and cash equivalents				74,986	74,986	88,858
				(846,375)	(1,018,667)	**774,886**
Total assets						**1,740,966**
LIABILITIES						
Current liabilities						
Borrowings and overdrafts				8	(29,306)	(40,901)
Current tax liabilities						(50,798)
Derivative financial instruments				22,523	(1,053)	(1,053)
		30,942			30,942	
Trade and other payables				10,043	77,809	(60,493)
Provisions				(5,033)	(4,268)	(4,268)
		30,942		27,541	74,124	**(157,513)**
Non-current liabilities						
Borrowings				(8)	23,060	(1,185,737)
Retirement benefit obligation					(28,930)	(28,930)
			3,497		3,497	
Derivative financial instruments				(22,523)	(22,523)	(22,523)
Trade and other payables				(4,964)	(6,875)	(9,214)
Provisions				(1,281)	(1,281)	(1,281)
			3,497	(28,776)	(33,052)	**(1,247,685)**
Total liabilities						**(1,405,198)**
Net assets	**(7,821)**	**30,942**	**59,634**	**(216)**	**(101,507)**	**335,768**
SHAREHOLDERS' EQUITY						
Share capital						32,868
Share premium account						141,614
Other reserves				(4,106)	(5,608)	(5,412)
Retained earnings	(7,821)	30,942	59,634	3,890	(95,899)	166,698
Total shareholders' equity	**(7,821)**	**30,942**	**59,634**	**(216)**	**(101,507)**	**335,768**

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(b) Reconciliation of equity at 31 December 2004 – Group continued

IAS 32 and IAS 39 Financial instruments – Income recognition

The recognition of loans and receivables at amortised cost using the effective interest method resulted in a decrease in loans and receivables by £122.5 million, a decrease in trade and other receivables by £1.8 million, a decrease in trade and other payables by £31.6 million and a decrease in retained earnings by £92.7 million.

IAS 32 and IAS 39 Financial instruments – Loan loss provisioning

The recognition of loan loss provisioning under the IAS 39 methodology resulted in a decrease in loans and receivables by £62.6 million, a decrease in provisions by £0.7 million, a decrease in trade and other payables by £0.4 million and a decrease in retained earnings by £61.5 million.

IAS 21, IAS 32 and IAS 39 Financial instruments – Treasury and hedging

The impact of fair valuing the group's derivatives, re-translating the US Dollar denominated borrowings and recognising the borrowings on an effective interest method was to recognise a new asset of £0.9 million for derivative financial instruments, a new liability of £23.6 million for derivative financial instruments, an increase in borrowings by £6.2 million, a decrease in trade and other payables by £29.6 million, a decrease in trade and other receivables by £5.7 million, a new hedging reserve of £1.5 million and an increase in retained earnings by £3.5 million.

IAS 19 Employee benefits

The adoption of IAS 19 in relation to the group's defined benefit pension scheme and a holiday pay accrual resulted in a new provision for retirement benefit obligations of £28.9 million, a decrease in trade and other receivables by £0.2 million, an increase in trade and other payables by £0.5 million and a decrease in retained earnings by £29.6 million.

IFRS 2 Share-based payments

The adoption of IFRS 2 resulted in a decrease in trade and other payables by £4.8 million and an increase in retained earnings by a corresponding amount.

IFRS 3 Business combinations

Under IFRS 3 goodwill is no longer amortised annually, rather it is subject to an annual impairment review. Therefore, amortisation recognised under UK GAAP for the year ended 31 December 2004 of £3.2 million has been written back to the balance sheet. This adjustment, along with the write off of goodwill relating to acquisitions which fail to meet the definition of a business combination of £11.0 million, resulted in a net reduction to goodwill (and retained earnings) of £7.8 million.

IAS 10 Events after the balance sheet date

Under IAS 10, the group's proposed dividend liability of £30.9 million has been removed with the corresponding amount written back to retained earnings.

IAS 12 Income tax

An adjustment to deferred tax of £59.6 million (prior to the reclassification of the £3.5 million deferred tax liability) has been recognised as at 31 December 2004 in relation to timing differences arising from the IFRS transitional adjustments in areas such as loans and receivables, hedging instruments and the retirement benefit obligation.

Others

The impact of other transitional adjustments as at 31 December 2004 included:

Reclassification of capitalised software – £9.9 million has been reclassified from property, plant and equipment to intangible assets.

Capitalisation of software development costs – £0.8 million has been written back to retained earnings and capitalised as an intangible asset.

Revision of freehold property residual values – The residual values and useful economic lives of property, plant and equipment were reviewed as at the date of transition, such that the depreciation charged on certain freehold properties was revised resulting in an increase in their net book value by £0.2 million.

Reclassification of investments – £75.0 million has been reclassified as cash equivalents.

Reclassification of provisions – £6.3 million has been reclassified from trade and other payables to provisions.

Reclassification of reserves – The revaluation reserve of £0.2 million has been transferred into retained earnings and the own shares held balance of £3.9 million has been reclassified from retained earnings to a separate own shares held reserve.

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(c) Reconciliation of profit for the year ended 31 December 2004 – Group

	Previously reported UK GAAP balances in UK GAAP format	IFRS Adjustments			
		IAS 32/39 Financial instruments Income recognition	IAS 32/39 Financial instruments Loan loss provisioning	IAS 21/32/39 Financial instruments Treasury & hedging	IAS 19 Employee benefits
	£'000	£'000	£'000	£'000	£'000
Turnover	**734,784**	(41,127)		713	
Cost of sales	(384,938)	60,436	(41,256)		
Gross profit	**349,846**	19,309	(41,256)	713	
Administrative expenses	(211,789)	(17,249)		(3,325)	558
Profit before taxation	**138,057**	2,060	(41,256)	(2,612)	558
Taxation	(42,544)				
Profit after taxation	**95,513**	2,060	(41,256)	(2,612)	558
Dividends[1]	(45,815)				
Retained profit for the year	**49,698**	**2,060**	**(41,256)**	**(2,612)**	**558**

[1] Under IFRS, dividends are shown as a deduction from equity

IAS 32 and IAS 39 Financial instruments – Income recognition

Fees and insurance revenues

Since loans and receivables are valued at amortised cost using the effective interest method, this has the impact of deferring the recognition of acceptance fees and similar fees and payment protection insurance commissions, which form part of the EIR calculation, over the expected life of the loan. These fees were previously recognised on inception of the loan agreement with an appropriate provision made for the rebate of such fees should a customer settle their loan early.

In addition under IFRS, insurance commissions on health, life and mechanical breakdown insurance products are recognised in line with the incidence of risk and reinsurance premiums on all products are earned over the expected life of the insurance policies.

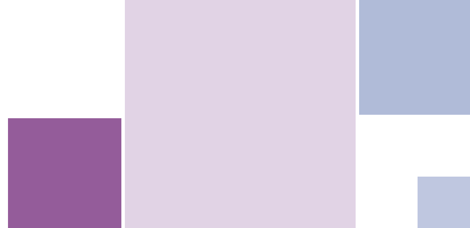
Therefore, for the year ended 31 December 2004, revenue from fees was £8.1 million lower and revenue from insurance commissions and reinsurance premiums was £19.1 million lower. In addition, cost of sales were £0.2 million lower.

Interest income

The EIR calculation takes account of cash flows arising from all contractual terms of the loan agreement, including the early settlement option for which a fee is charged. Consequently, interest income (before the 'gross-up adjustment') was £16.3 million higher for the year ended 31 December 2004.

Loan origination costs

As only direct and incremental costs (being broker commissions and certain agents' commissions) are included in the EIR calculation, and hence effectively presented as part of revenue rather than being classified as part of cost of sales or administrative expenses, this has resulted in a decrease in revenue by £30.3 million, a decrease in cost of sales by £42.6 million and an increase in administrative expenses by £16.7 million.



IFRS Adjustments						
IFRS 2 Share-based payments	IFRS 3 Business combinations	IAS 12 Income tax	Others	Total effect of the transition to IFRS	Restated IFRS balances in IAS 1 format	
£'000	£'000	£'000	£'000	£'000		£'000
			3,600	(37,527)	**Revenue**	**697,257**
			(78,212)	(77,499)	Finance costs	(77,499)
			74,612	93,792	Other cost of sales	(291,146)
				(21,234)	**Gross profit**	**328,612**
1,610	3,170		681	(14,555)	Administrative expenses	(226,344)
1,610	3,170		681	(35,789)	**Profit before taxation**	**102,268**
		11,623		11,623	Taxation	(30,921)
1,610	3,170	11,623	681	(24,166)	**Profit for the year**	**71,347**
1,610	**3,170**	**11,623**	**681**	**(24,166)**		

Grossing-up of income

IAS 39 requires that income continues to be recognised on an outstanding loan balance at the original EIR, irrespective of whether or not this interest can either be charged to the customer under the terms of the loan agreement or even should be charged, if a customer is encountering serious repayment difficulties. Management has, therefore, decided that this additional interest should not actually be charged to customers, and therefore a corresponding loan loss provisioning charge is made. The impact on profit is zero, but the revenue and loan loss provisioning charge lines are effectively 'grossed-up' by the same amount. The income gross-up adjustment for the year ended 31 December 2004 was £18.8 million.

Acquired default debt

Under UK GAAP the amount of cash collections received from acquired default debt was treated as revenue. In addition, the purchase price for the debt, alongside initial court costs and subsequent enforcement costs, was capitalised and amortised through to profit over the expected collections period of the debt within cost of sales.

However, under IAS 39 acquired default debt is recognised using the effective interest method. As the enforcement costs are not direct to the initial acquisition of the debt, these costs are now recognised as incurred. The different income and cost recognition rules have had the impact for the year ended 31 December 2004 of decreasing revenue by £19.1 million and decreasing cost of sales by £17.6 million.

Unallocable cash receipts

Under IAS 39 the liability to repay unallocable cash receipts is only derecognised when the legal obligation has been extinguished, such that the unallocable cash receipts are recognised as income only after six years have elapsed. Previously such unallocable receipts had been credited to profit (as part of administrative expenses) within two years of their receipt. Therefore, the impact of this change to income recognition for the year ended 31 December 2004 was to increase revenue by £0.4 million and increase administrative expenses by £0.5 million.

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(c) Reconciliation of profit for the year ended 31 December 2004 – Group continued

IAS 32 and IAS 39 Financial instruments – Loan loss provisioning

Under IAS 39 loan loss provisions must be measured as the difference between the loan's carrying amount on the balance sheet and the present value of estimated future cash flows discounted at the loan's original EIR. This approach differs to the bad debt provisioning methodology which had been adopted under UK GAAP which was based around the amount and recency of the customer's last few payments, and which did not take account of discounting.

The impact on the loan loss provisioning charge being calculated in accordance with IAS 39 (before the 'gross-up adjustment') for the year ended 31 December 2004 was an increase of £22.5 million. As explained in the preceding section, the loan loss provisioning charge gross-up adjustment for the year was £18.8 million. Therefore, the total adjustment to profit was a decrease of £41.3 million.

IAS 21, IAS 32 and IAS 39 Financial instruments – Treasury and hedging

As the group did not apply hedge accounting for 2004, a net loss on fair valuing the derivative financial instruments of £3.3 million was recognised as a charge within administrative expenses for the year ended 31 December 2004.

Under IAS 21, it was also necessary for the US Dollar denominated borrowings to be re-translated at the spot rate prevailing at 31 December 2004. This gave rise to a foreign exchange gain of £4.0 million classified within finance costs.

Under IAS 39, in the absence of hedge accounting, it is necessary to amortise the transitional hedging reserve as a finance cost through the income statement. The amortisation charged in any one period is calculated so as to reflect how the hedged item has affected profit or loss in the same period. An amortisation charge of £3.4 million was therefore recognised for the year ended 31 December 2004 within finance costs.

The adoption of IAS 39 also resulted in an increase in finance costs by £0.3 million due to legal fees arising on the arrangement of borrowings being recognised on an effective interest method and a decrease in finance costs by £0.4 million as a result of the write back of the amortisation of previously capitalised interest rate cap and collar premiums.

IAS 19 Employee benefits

The adoption of IAS 19 in relation to the group's defined benefit pension scheme resulted in a reduction in the pension charge (included within administrative expenses) of £0.6 million for the year ended 31 December 2004. However, an actuarial loss of £2.5 million (net of tax) was recognised through the statement of recognised income and expense.

IFRS 2 Share-based payments

Primarily due to awards made before 7 November 2002 (and not vested by 1 January 2005) being excluded from the scope of IFRS 2, the share-based payments charge for the year ended 31 December 2004 was lower under IFRS by £1.6 million.

IFRS 3 Business combinations

As goodwill is no longer amortised under IFRS, the UK GAAP amortisation charge for the year ended 31 December 2004 of £3.2 million has been added back to profit.

IAS 12 Income tax

As a result of the adjustments to certain income and expenditure items arising under IFRS, a deferred tax credit of £11.6 million has been recognised for the year ended 31 December 2004.

Others

The adoption of IFRS also resulted in a decrease in administrative expenses by £0.7 million and the reclassification of income of £3.6 million earned on fixed interest bank deposits from finance costs to revenue.

In addition, in accordance with IAS 1, the group's finance costs are now disclosed separately on the face of the income statement, rather than being included in total cost of sales (£74.6 million); and dividends are no longer presented as part of the income statement, rather they are shown as a deduction from equity.

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(d) Reconciliation of cash flows for the year ended 31 December 2004 – Group

	UK GAAP IFRS format	IFRS adjustments	IFRS
	£'000	£'000	£'000
Cash flows from operating activities			
Cash outflow from operations	(134,513)	1,333	(133,180)
Tax paid	(22,507)		(22,507)
Net cash outflow from operating activities	**(157,020)**	1,333	**(155,687)**
Cash flows from investing activities			
Acquisition of business and subsidiary undertakings	(18)		(18)
Purchase of property, plant and equipment	(13,948)	8,442	(5,506)
Proceeds from sale of property, plant and equipment	5,108		5,108
Purchase of intangible assets	–	(8,851)	(8,851)
Proceeds from sale of investments at fair value through profit or loss	(13,794)	62,705	48,911
Net cash (outflow)/inflow from investing activities	**(22,652)**	62,296	**39,644**
Cash flows from financing activities			
Proceeds from issue of share capital	1,836		1,836
Purchase of own shares	(212)	(923)	(1,135)
Issue of new borrowings	5,500	410,000	415,500
Repayment of borrowings	(241)	(220,554)	(220,795)
Capital element of hire purchase contract payments	(4,253)	4,253	–
Dividends paid to shareholders	(41,481)		(41,481)
Net cash (outflow)/inflow from financing activities	**(38,851)**	192,776	**153,925**
Net (decrease)/increase in cash and cash equivalents	**(218,523)**	256,405	**37,882**
Cash and cash equivalents at beginning of year	(357,248)	402,580	45,332
Cash and cash equivalents at end of year	**(575,771)**	658,985	**83,214**

(d) Reconciliation of cash flows for the year ended 31 December 2004 – Group continued

There are some major differences between a cash flow statement prepared under IAS 7 'Cash Flow Statements' and one prepared under FRS 1.

Definition of cash and cash equivalents

The cash flows reported under IAS 7 relate to movements in cash and cash equivalents, whereas FRS 1 required the movements in cash only. There was no concept of cash equivalents under FRS 1 and any cash flows relating to short-term highly liquid investments were included in the heading 'management of liquid resources'.

Previously, the group had presented cash flows arising from the current asset investments held by the reinsurance company within 'management of liquid resources', therefore on transition to IFRS those investments which met the definition of a cash equivalent (which amounted to £12.3 million at 1 January 2004) were reclassified and included within the increase or decrease of cash and cash equivalents during 2004. The current asset investments which did not meet the cash equivalent definition were reclassified as investments held at fair value through profit or loss, and the cash inflow of £48.9 million during 2004 arising from the disposal of these assets (prior to reinvestment in bank deposits) has been included within investing activities in the IFRS cash flow statement.

Under UK GAAP, the group's syndicated bank borrowings were included in the definition of cash for the purposes of the cash flow statement. This treatment is not permitted under IAS 7, therefore the opening cash and cash equivalents balance as at 1 January 2004 has been restated by £390.3 million, and cash flows arising from the issuance and repayment of bank borrowings are now included within financing activities in the cash flow statement.

In addition, under IFRS, borrowings includes obligations under finance lease and hire purchase contracts and therefore the capital element of hire contract payments has been reclassified in the cash flow statement as repayment of borrowings.

Other presentational changes

IAS 7 only requires cash flows to be reported under three headings: operating, investing and financing, whereas FRS 1 required cash flows to be reported under nine headings including separate headings for cash flows arising from taxation and equity dividends. Under IAS 7 tax cash flows are now included within operating activities and equity dividend payments are included within financing activities.

Reclassification of software-related cash flows

Given that certain software development costs are now being capitalised in accordance with IAS 38 rather than being expensed as incurred, the amount of cash outflow from operations (before tax paid) has reduced by £0.4 million. The cash outflows arising from software development expenditure are now included within investing activities.

On transition to IFRS, capitalised software has been reclassified from property, plant and equipment to intangible assets. Therefore, cash flows arising from the purchase or disposal of software are now shown separately within the investing activities section of the cash flow statement.

Purchase of own shares

The financing cash flow for the purchase of own shares under UK GAAP of £0.2 million has been restated to only include the cash consideration paid of £1.1 million, with the remaining £0.9 million, relating to the vesting of shares, being reclassified as an operating cash flow.

(e) Reconciliation of equity at 1 January 2004 – Company

The adoption of IFRS has also had a significant impact on the equity, profits and cash flows of the company. These impacts are shown in the company reconciliations on pages 102 to 108. The explanations behind the IFRS adjustments contained in these reconciliations are consistent with those described in relation to the group on pages 88 to 101.

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(e) Reconciliation of equity at 1 January 2004 – Company continued

Previously reported UK GAAP balances in UK GAAP format		IFRS Adjustments			
		IAS 21/32/39 Financial instruments Treasury & hedging	IAS 19 Employee benefits	IFRS 2 Share-based payments	IAS 10 Events after the balance sheet date
	£'000	£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets	1,035				
Investments in subsidiary undertakings	176,416			289	
Trade and other debtors	3,113	(3,113)			
		1,569			
	180,564	(1,544)		289	
Current assets					
Intra-group debtors	1,260,271				(32,149)
Trade and other debtors	2,606	(1,762)			
Cash at bank and in hand	31,902				
	1,294,779	(1,762)			(32,149)
Creditors – amounts falling due within one year					
Bank and other borrowings	(224,842)	(5,425)			
Dividends payable	(26,606)				26,606
Intra-group creditors	(102,030)				
Trade and other creditors	(12,785)	5,962		2,923	
	(366,263)	537		2,923	26,606
Net current assets	928,516				
Total assets less current liabilities	1,109,080				
Creditors – amounts falling due after more than one year					
Bank and other borrowings	(793,160)	18,038			
			(25,987)		
		(21,200)			
Provision for deferred tax	(5,795)				
Trade and other creditors and accruals	(4,255)			1,263	
	(803,210)	(3,162)	(25,987)	1,263	
Net assets	**305,870**	**(5,931)**	**(25,987)**	**4,475**	**(5,543)**
Capital and reserves					
Share capital	32,796				
Share premium account	139,850				
Other reserves	39,067	(5,022)			
Profit and loss account	94,157	(909)	(25,987)	4,475	(5,543)
Equity shareholders' funds	**305,870**	**(5,931)**	**(25,987)**	**4,475**	**(5,543)**

	IFRS Adjustments IAS 12 Income tax	SIC 12 Consolidation Employee Benefit Trust	Others	Total effect of the transition to IFRS	Restated IFRS balances in IAS 1 format
	£'000	£'000	£'000	£'000	£'000
ASSETS					
Non-current assets					
Intangible assets			15	15	15
Property, plant and equipment			(15)	(15)	1,020
Investments in subsidiary undertakings				289	176,705
Trade and other receivables		3,698		585	3,698
Deferred tax assets	3,780			3,780	3,780
Derivative financial instruments				1,569	1,569
	3,780	3,698		6,223	**186,787**
Current assets					
Loans and receivables				(32,149)	1,228,122
Trade and other receivables				(1,762)	844
Cash and cash equivalents					31,902
				(33,911)	**1,260,868**
Total assets					**1,447,655**
LIABILITIES					
Current liabilities					
Borrowings			(102,030)	(107,455)	(332,297)
				26,606	
			102,030	102,030	
Trade and other payables				8,885	(3,900)
				30,066	**(336,197)**
Non-current liabilities					
Borrowings				18,038	(775,122)
Retirement benefit obligation				(25,987)	(25,987)
Derivative financial instruments				(21,200)	(21,200)
	5,795			5,795	
Trade and other payables				1,263	(2,992)
	5,795			(22,091)	**(825,301)**
Total liabilities					**(1,161,498)**
Net assets	**9,575**	**3,698**		**(19,713)**	**286,157**
SHAREHOLDERS' EQUITY					
Share capital					32,796
Share premium account					139,850
Other reserves				(5,022)	34,045
Retained earnings	9,575	3,698		(14,691)	79,466
Total shareholders' equity	**9,575**	**3,698**		**(19,713)**	**286,157**

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(f) Reconciliation of equity at 31 December 2004 – Company

Previously reported UK GAAP balances in UK GAAP format		IFRS Adjustments IAS 21/32/39 Financial instruments Treasury & hedging	IAS 19 Employee benefits	IFRS 2 Share-based payments	IAS 10 Events after the balance sheet date
	£'000	£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets	625				
Investments in subsidiary undertakings	174,789			1,277	
Trade and other debtors	4,156	(4,156)			
		909			
	179,570	(3,247)		1,277	
Current assets					
Intra-group debtors	1,599,874				(69,377)
Trade and other debtors	3,069	(1,513)			
Cash at bank and in hand	3,684				
	1,606,627	(1,513)			(69,377)
Creditors – amounts falling due within one year					
Bank and other borrowings	(7,812)	(29,313)			
Dividends payable	(30,942)				30,942
Intra-group creditors	(156,821)				
Trade and other creditors	(36,954)	29,559	(2,791)	3,282	
	(232,529)	246	(2,791)	3,282	30,942
Net current assets	1,374,098				
Total assets less current liabilities	1,553,668				
Creditors – amounts falling due after more than one year					
Bank and other borrowings	(1,202,018)	23,068			
			(28,930)		
		(23,576)			
Provision for deferred tax	(789)				
Trade and other creditors and accruals	(2,339)			1,524	
	(1,205,146)	(508)	(28,930)	1,524	
Net assets	**348,522**	**(5,022)**	**(31,721)**	**6,083**	**(38,435)**
Capital and reserves					
Share capital	32,868				
Share premium account	141,614				
Other reserves	39,067	(1,502)			
Profit and loss account	134,973	(3,520)	(31,721)	6,083	(38,435)
Equity shareholders' funds	**348,522**	**(5,022)**	**(31,721)**	**6,083**	**(38,435)**

IFRS Adjustments IAS 12 Income tax	SIC 12 Consolidation Employee Benefit Trust	Others	Total effect of the transition to IFRS	Restated IFRS balances in IAS 1 format	
£'000	£'000	£'000	£'000		£'000
				ASSETS	
				Non-current assets	
		14	14	Intangible assets	14
		(14)	(14)	Property, plant and equipment	611
			1,277	Investments in subsidiary undertakings	176,066
	3,910		(246)	Trade and other receivables	3,910
10,233			10,233	Deferred tax assets	10,233
		(14)	895	Derivative financial instruments	895
10,233	3,910	(14)	12,159		**191,729**
				Current assets	
			(69,377)	Loans and receivables	1,530,497
			(1,513)	Trade and other receivables	1,556
		14	14	Derivative financial instruments	14
				Cash and cash equivalents	3,684
		14	(70,876)		**1,535,751**
				Total assets	**1,727,480**
				LIABILITIES	
				Current liabilities	
		(156,821)	(186,134)	Borrowings	(193,946)
			30,942		
		(1,053)	(1,053)	Derivative financial instruments	(1,053)
		156,821	156,821		
		2,792	32,842	Trade and other payables	(4,112)
		1,739	33,418		**(199,111)**
				Non-current liabilities	
			23,068	Borrowings	(1,178,950)
			(28,930)	Retirement benefit obligation	(28,930)
		1,053	(22,523)	Derivative financial instruments	(22,523)
789			789		
		(2,792)	(1,268)	Trade and other payables	(3,607)
789		(1,739)	(28,864)		**(1,234,010)**
				Total liabilities	**(1,433,121)**
11,022	**3,910**		**(54,163)**	**Net assets**	**294,359**
				SHAREHOLDERS' EQUITY	
				Share capital	32,868
				Share premium account	141,614
			(1,502)	Other reserves	37,565
11,022	3,910		(52,661)	Retained earnings	82,312
11,022	**3,910**		**(54,163)**	**Total shareholders' equity**	**294,359**

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(g) Reconciliation of profit for the year ended at 31 December 2004 – Company

	Previously reported UK GAAP balances in UK GAAP format	IFRS Adjustments IAS 21/32/39 Financial instruments Treasury & hedging	IAS 19 Employee benefits	IFRS 2 Share-based payments
	£'000	£'000	£'000	£'000
Turnover	**42**			
Cost of sales	(5,362)	713		
Gross loss	**(5,320)**	713		
Administrative expenses	(15,192)	(3,325)	(2,128)	2,598
Income from group companies	97,927			
Profit before taxation	**77,415**	(2,612)	(2,128)	2,598
Taxation	9,429			
Profit after taxation	**86,844**	(2,612)	(2,128)	2,598
Dividends[1]	(45,815)			
Retained profit for the year	**41,029**	**(2,612)**	**(2,128)**	**2,598**

[1] Under IFRS, dividends are shown as a deduction from equity

IFRS Adjustments			
IAS 12 Income tax	IAS 10 Events after the balance sheet date	Others	Total effect of the transition to IFRS
£'000	£'000	£'000	£'000
		60,700	60,700
			713
		60,700	61,413
			(2,855)
	(37,227)	(60,700)	(97,927)
	(37,227)		(39,369)
366			366
366	(37,227)		(39,003)
366	**(37,227)**		**(39,003)**

Restated IFRS balances in IAS 1 format	
	£'000
Revenue	**60,742**
Finance costs	(4,649)
Gross profit	**56,093**
Administrative expenses	(18,047)
Profit before taxation	**38,046**
Taxation	9,795
Profit for the year	**47,841**

38 Transition to IFRS continued

Reconciliations between UK GAAP and IFRS continued

(h) Reconciliation of cash flows for the year ended at 31 December 2004 – Company

	UK GAAP IFRS format	IFRS adjustments	IFRS
	£'000	£'000	£'000
Cash flows from operating activities			
Cash inflow from operations	63,449	923	64,372
Tax repaid	16,226		16,226
Net cash outflow from operating activities	**79,675**	923	**80,598**
Cash flows from investing activities			
Acquisition of business and subsidiary undertakings	(18)		(18)
Purchase of property, plant and equipment	(62)	7	(55)
Proceeds from sale of property, plant and equipment	672		672
Purchase of intangible assets	–	(7)	(7)
Dividends received	60,699		60,699
Net cash inflow from investing activities	**61,291**		**61,291**
Cash flows from financing activities			
Proceeds from issue of share capital	1,836		1,836
Purchase of own shares	(212)	212	–
Issue of loan to Employee Benefit Trust	–	(1,135)	(1,135)
Issue of new borrowings	–	410,000	410,000
Repayment of borrowings	–	(216,408)	(216,408)
Capital element of hire purchase contract payments	(108)	108	–
Issue of new intra-group borrowings	–	(320,139)	(320,139)
Dividends paid to shareholders	(41,481)		(41,481)
Net cash outflow from financing activities	**(39,965)**	(127,362)	**(167,327)**
Net (decrease)/increase in cash and cash equivalents	**101,001**	(126,439)	**(25,438)**
Cash and cash equivalents at beginning of year	759,274	(735,792)	23,482
Cash and cash equivalents at end of year	**860,275**	(862,231)	**(1,956)**

Principal Operating Subsidiary Undertakings

Subsidiary Undertaking	Principal Activity
Consumer Credit	
Progressive Financial Services Ltd, trading as:	
Welcome Financial Services	Monthly instalment personal loans and hire purchase credit
Welcome Car Finance	Direct distribution motor finance
Shopacheck Financial Services	Weekly home collected credit
Dial4aloan	Consumer credit brokerage
Progressive Insurance Company Ltd	Reinsurance
Debt Recovery	
The Lewis Group Ltd	Debt collection and investigation services
Corporate Services	
Cattles Invoice Finance Ltd	Invoice factoring
Cattles Invoice Finance (Oxford) Ltd	Invoice factoring

All the above companies are wholly owned. They operate in the United Kingdom and are registered in England with the exception of The Lewis Group Limited which is registered in Scotland and Progressive Insurance Company Limited which is incorporated in the Isle of Man. Companies which are dormant or whose operations are insignificant have been excluded.

Notice of Meeting

Notice is given that the fifty-first annual general meeting of Cattles plc will be held at the Oulton Hall Hotel, Rothwell Lane, Oulton, Leeds LS26 8HN on 11 May 2006 at 12.00 noon for the following purposes:

Ordinary Business

1 To receive the directors' report, audited financial statements and auditors' report in respect of the year ended 31 December 2005. (Resolution 1)

2 To declare the proposed final dividend. (Resolution 2)

3 To elect directors.

The following directors, having been appointed by the directors since the last annual general meeting, will be proposed for re-appointment:

A J McWalter (Resolution 3(a))

M A Young (Resolution 3(b))

The following directors, retiring by rotation, will be proposed for re-election:

N N Broadhurst (Resolution 3(c))

M W G Collins (Resolution 3(d))

4 To re-appoint PricewaterhouseCoopers LLP as auditors to the company in accordance with section 385 of the Companies Act 1985. (Resolution 4)

5 To authorise the Board of directors to determine the auditors' remuneration. (Resolution 5)

6 To approve the remuneration report of the directors prepared in accordance with the Directors' Remuneration Report Regulations 2002 and dated 16 March 2006. (Resolution 6)

Special Business

To consider and, if thought fit, pass the following resolutions. Resolution 7 will be proposed as an ORDINARY RESOLUTION. Resolutions 8, 9 and 10 will be proposed as SPECIAL RESOLUTIONS:

7 That:

(a) the directors of the company be authorised generally and unconditionally to exercise all powers of the company to allot, grant options over, offer or otherwise deal with or dispose of relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £10,964,170;

(b) the authority conferred by this resolution shall expire at the conclusion of the next annual general meeting of the company following the date of this resolution (or, if sooner, 15 months from the date of this resolution) or such later date as the company may by ordinary resolution from time to time prescribe but may be previously revoked, varied or renewed by ordinary resolution;

(c) the authority conferred by this resolution shall enable the company to make any offer or agreement before the expiry of such authority that would or might require relevant securities to be allotted after such authority expires and the directors of the company may allot relevant securities in pursuance of any such offer or agreement up to the maximum amount permitted by this resolution as if the authority conferred by this resolution had not expired; and

(d) the authority conferred by resolution 7 passed at the annual general meeting of the company held on 5 May 2005 is revoked but without prejudice to any allotment, offer or agreement made or entered into prior to the passing of this resolution. (Resolution 7)

8 That:

(a) the directors of the company be empowered, pursuant to section 95 of the Companies Act 1985 ('the Act'), to allot equity securities as defined in section 94 of the Act pursuant to the authority conferred by resolution 7 above as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders and holders of any other shares or securities of the company that by their terms are entitled to participate in such rights issue where the equity securities respectively attributable to the interests of all ordinary shareholders and such holders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them or into which their shares or securities are to be deemed converted in calculating the extent of their participation but subject to such exclusions as the directors of the company may deem fit to deal with fractional entitlements or problems arising in respect of any overseas territory; and

(ii) the allotment wholly for cash (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £1,644,625;

(b) the power conferred by this resolution shall expire at the conclusion of the next annual general meeting of the company following the date of this resolution (or, if sooner, 15 months from the date of this resolution) or such later date as the company may by special resolution from time to time prescribe but may be previously revoked, varied or renewed by special resolution;

(c) the power conferred by this resolution shall enable the company to make any offer or agreement before the expiry of such power that would or might require equity securities to be allotted after such power expires and the directors of the company may allot equity securities in pursuance of any such offer or agreement up to the maximum amount permitted by this resolution as if the power conferred by this resolution had not expired; and

(d) the power conferred by resolution 8 passed at the annual general meeting of the company held on 5 May 2005 is revoked but without prejudice to any allotment, offer or agreement made or entered into prior to the passing of this resolution.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94 (3A) of the Act as if in the first paragraph of this resolution the words ‘pursuant to the authority conferred by resolution 7 above’ were omitted. (Resolution 8)

9 That the company be generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (‘the Act’) to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of ordinary shares of 10p each in the capital of the company provided that:

(a) the maximum aggregate number of ordinary shares authorised to be purchased is 32,892,511 (representing 10 per cent of the company’s issued ordinary share capital);

(b) the minimum price which may be paid for such shares is 10p per share;

(c) the maximum price which may be paid for an ordinary share shall not be more than the higher of:

(i) 5 per cent above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased; and

(ii) that stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation;

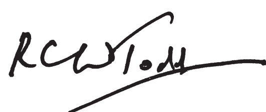
(d) unless previously renewed, varied or revoked, the authority conferred shall expire at the conclusion of the next annual general meeting of the company following the date of this resolution or, if sooner, 15 months from the date of passing this resolution;

(e) the company may make a contract or contracts to purchase ordinary shares under the authority conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts; and

(f) the authority conferred by resolution 9 passed at the annual general meeting of the company held on 5 May 2005 is revoked but without prejudice to any contract to purchase ordinary shares entered into prior to the passing of this resolution. (Resolution 9)

10 That Article 39.2 of the company’s Articles of Association be amended by the deletion of the word ‘five’ in the penultimate line and its substitution by the word ‘six’. (Resolution 10)

By order of the Board



Roland Todd
Company Secretary
Kingston House
Centre 27 Business Park
Woodhead Road
Birstall
Batley
WF17 9TD
7 April 2006

NOTES:

(i) *A member of the company entitled to attend and vote may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the company.*

(ii) *A Form of Proxy is enclosed with this notice for use in connection with the business set out above. In the event of you being unable to attend the meeting, you are requested to complete and return the Form of Proxy so as to reach the company's registrar not later than 12.00 noon on Tuesday 9 May 2006.*

Alternatively, if you would like to submit your Form of Proxy electronically by the internet, go to www.computershare.com and follow the link to 'Investors' then 'Proxy Voting' and select Cattles plc.

CREST members who wish to appoint a proxy or proxies through the CREST Electronic Proxy Appointment Service may do so for the annual general meeting and any adjournment(s) of it by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with the specifications of CRESTCo Limited ('CRESTCo') and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the company's agent (ID 3RA50) by 12.00 noon on Tuesday 9 May 2006. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(iii) *Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the company gives notice that only those shareholders entered on the register of members of the company at close of business on 9 May 2006 will be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after close of business on 9 May 2006 will be disregarded in determining the rights of any person to attend or vote at the meeting.*

(iv) *The Memorandum and Articles of Association of the company and the register of directors' interests in shares in the company or its subsidiaries will be available for inspection at the registered office of the company during business hours only on any weekday (excluding Saturdays, Sundays and English public holidays) from the date of this notice until the close of the annual general meeting and at the place of the meeting from 11.45am on 11 May 2006 until the conclusion of the meeting.*

(v) *The proposed dividend, if approved, will be paid on 16 May 2006.*

Explanation of Resolutions

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about what action to take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised pursuant to the Financial Services and Markets Act 2000. If you have sold or transferred all your shares in the company, please deliver these annual report and accounts and the accompanying proxy form to the purchaser or transferee or to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Recommendation

The directors consider that the ordinary business and the special business which is the subject matter of the Resolutions to be proposed at the annual general meeting is in the best interests of the company and its shareholders as a whole and unanimously recommend that shareholders vote in favour of Resolutions 1 to 10 to be proposed at the annual general meeting, as they intend to do in respect of their own beneficial holdings which in aggregate amount to 417,676 shares and comprise approximately 0.13 per cent of the issued share capital of the company as at 28 March 2006.

Resolution 1

The directors must present to shareholders the Report of the Directors, the financial statements of the company and the auditors' report for the year ended 31 December 2005.

Resolution 2

A final dividend of 10.65p per share is proposed and, if approved, will be paid on 16 May 2006 to shareholders on the register on 31 March 2006.

Resolutions 3(a)(b)(c)(d)

A J McWalter and M A Young, having been appointed as directors by the directors since the 2005 annual general meeting, are required to be re-appointed at this annual general meeting. A J McWalter's marketing experience and M A Young's investment banking experience have added new dimensions to Board proceedings and the directors recommend shareholders to re-appoint them as directors.

At each annual general meeting one third of the directors (excluding, for this purpose, A J McWalter and M A Young) or, if their number is not a multiple of three, then the number nearest to but not less than one third, are required to retire from office. Directors due to retire by rotation include any director who wishes to retire and not offer himself for re-election and otherwise are those who have been longest in office since they were last elected and so that as between persons who were last elected on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. B Cottingham is retiring and not offering himself for re-election and N N Broadhurst and M W G Collins retire by rotation and are offering themselves for re-election. In relation to the re-election of N N Broadhurst, the Chairman confirms, in accordance with provision A.7.2 of the 2003 FRC Combined Code on Corporate Governance, that, following a formal performance evaluation, his performance continues to be effective and to demonstrate his commitment to the role, including the commitment of his time for Board and Committee meetings and his other duties and the increased time commitment when he becomes Chairman at the conclusion of the annual general meeting on 11 May 2006.

Resolution 4

The auditors of the company must be re-appointed at each meeting at which the financial statements are presented. Resolution 4 proposes the re-appointment of PricewaterhouseCoopers LLP.

Resolution 5

This resolution gives the directors authority to agree the remuneration to be paid to the auditors.

Resolution 6

Under the Directors' Remuneration Report Regulations 2002, the directors of the company are obliged to present to shareholders a report on directors' remuneration for the financial year ended 31 December 2005. The remuneration report is set out on pages 26 to 35 of this document.

Explanation of Resolutions

Resolution 7

This resolution grants the directors authority to allot relevant securities up to an aggregate nominal amount of £10,964,170, being one third of the company's issued share capital as at 28 March 2006. It is not the directors' current intention to allot relevant securities pursuant to this resolution. This authority replaces the existing authority to allot relevant securities but does not affect the ability to allot shares under the company's employee share schemes. This authority will expire at the conclusion of the 2007 annual general meeting or 15 months after the passing of the resolution, if earlier.

Resolution 8

This is a special resolution whereby the directors seek power to allot shares for cash otherwise than in accordance with the pre-emption rights set out in section 89(1) of the Companies Act 1985 in connection with a rights issue of up to the number of shares which the directors are authorised to allot pursuant to resolution 7 or otherwise up to a maximum nominal amount of £1,644,625, being 5 per cent of the company's issued share capital as at 28 March 2006. This power will expire at the conclusion of the 2007 annual general meeting or 15 months after the passing of this resolution, if earlier.

Resolution 9

This is a special resolution authorising the company to make market purchases of up to 32,892,511 of its ordinary shares, being 10 per cent of its issued share capital as at 28 March 2006. The maximum price payable for a share shall not be more than the higher of 5 per cent above the average of the middle market quotations of such shares for the five business days before such purchases and the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (being the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out). The minimum price payable for a share will be 10p. The authority will expire at the conclusion of the 2007 annual general meeting or 15 months after the passing of the resolution, if earlier.

The directors have no present intention of making market purchases of ordinary shares pursuant to this authority. The directors would only purchase ordinary shares pursuant to this authority if to do so would result in an increase in earnings per share and be in the best interests of shareholders generally.

As at 28 March 2006 there were outstanding options to subscribe for 2,397,645 ordinary shares, which represented 0.73 per cent of the issued share capital of the company as at that date and would represent 0.81 per cent of the issued share capital of the company if the authority to make market purchases of ordinary shares conferred by resolution 9 was used in full.

Normally, any share purchased under this authority will be cancelled. However, the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 allow companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by the company in accordance with the Companies Act 1985. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under an employee share scheme. If any shares held in treasury are used to satisfy options and awards under an employee share scheme, any such options and awards will be granted or made in accordance with relevant institutional shareholder guidelines.

Once held in treasury, the company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the company's assets may be made to the company in respect of the treasury shares.

Resolution 10

This is a special resolution amending Article 39.2 of the company's Articles of Association so as to increase the limit on the directors' borrowing powers from five to six times the Adjusted Capital and Reserves. Following the adoption of International Financial Reporting Standards for the 2005 financial statements, the Adjusted Capital and Reserves as at 31 December 2005 were £368 million (UK GAAP 2004: £437 million). In December 2005 the gearing ratio covenant in the group's financing agreements was increased from five to six times and so it is proposed to increase the limit on the directors' powers to incur borrowings on behalf of the company and its subsidiary undertakings, both to align these with the increased gearing ratio covenants and to restore the limit on the amount that the directors can borrow under the Articles of Association to that which applied after the audit of the 2004 financial statements under UK GAAP.

Final Dividend Payment Details

A list of the key dates leading to the payment of the final dividend is set out below:

Shares quoted ex-dividend	29 March 2006
Record date	31 March 2006
Last date for receipt of Dividend Reinvestment Plan mandates (to be included for the final dividend)	24 April 2006
Payment of final dividend 10.65p (net)	16 May 2006

Dividend Reinvestment Plan

The Dividend Reinvestment Plan ('the plan') allows shareholders to reinvest their cash dividend in shares bought on the London Stock Exchange through a specially arranged share dealing service.

The plan is run and administered by our Registrars, Computershare Investor Services PLC. For legal reasons, the plan is available only to shareholders resident in the UK (excluding the Channel Islands), be they individuals or corporate shareholders. If you have not previously completed a mandate and require details of the plan, you should contact the Registrars whose address and telephone number is set out below.

New mandates must be received by close of business on 24 April 2006 to be included in the plan for the final dividend.

If you choose to join the plan, your cash dividend will be used to buy Cattles plc ordinary shares. You will be charged a dealing commission of 0.5% of the value of shares purchased. You will be required to pay stamp duty reserve tax at the prevailing rate (currently 0.5%).

Dividend Mandate

Using the BACS system, shareholders may choose to have dividends paid electronically into their bank or building society. This process ensures that the amount of the dividend is passed directly into their account, as cleared funds, on the date the payment is due.

Confirmation of these details will be contained in a dividend tax voucher which is posted to shareholders' registered addresses at the time of payment. This voucher should be kept for future reference.

Electronic Communications

Shareholders can elect to receive communications (Annual Reports, Interim Reports and any other company communications) electronically, provided they have internet access and a valid email address. To obtain more information, and to register for this service, shareholders should log on to www.cattles.co.uk. To register, shareholders will need their shareholder reference number, which is set out on their share certificate or dividend tax voucher. If you have any questions about this service, please call the shareholder helpline number: 0870 889 3108.

Shareholders' Services and Helpline

Shareholders who change address, want to have their dividends paid direct into their bank account, have a query on their shares, or who otherwise require information about their holding should contact the Customer Information Unit at Computershare Investor Services PLC, Registrars, on the shareholder information telephone line: 0870 702 0003. Alternatively, they should write to the Registrars at PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH, indicating that they are a Cattles plc shareholder.

Computershare Investor Services PLC have introduced a facility whereby shareholders in Cattles plc are able to access their shareholdings over the internet subject to passing an identity check. You can access this service on their website at: www.computershare.com.

Registered Office and Advisers

Registered Office
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Batley
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Registered in England
Number 543610

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Benson House
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LS1 4JP

Internal Auditors
KPMG LLP
1 The Embankment
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Leeds
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Principal Bankers
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HSBC Bank plc
Barclays Bank PLC
Lloyds TSB Bank plc

Solicitors
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Joint Stockbrokers
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